

**SPENCER COUNTY SCHOOL DISTRICT**

**BASIC FINANCIAL STATEMENTS,  
SUPPLEMENTARY INFORMATION,  
AND INDEPENDENT AUDITOR'S REPORTS**

**YEAR ENDED JUNE 30, 2008**

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# BROWN & COMPANY

## CERTIFIED PUBLIC ACCOUNTANTS FINANCIAL ADVISORS & BUSINESS CONSULTANTS

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William G. Brown, CPA - W. Gilbert Brown III, CPA

### INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education  
Spencer County School District  
Taylorsville, Kentucky 40071

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units, and the remaining fund information of Spencer County School District, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Spencer County School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the provisions of Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract – General Audit Requirement, Appendix II to the Independent Auditor's Contract – State Audit Requirement, and Appendix III to the Independent Auditor's Contract – Electronic Submission. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.

An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the major fund, and aggregate discretely presented component units, and remaining fund information of the Spencer County School District, as of June 30, 2008, and the respective changes in financial position, and cash flows where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2008, on our consideration of the Spencer County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 39, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Spencer County School District's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Spencer County School District. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Brown & Company CPA's*

Bardstown, Kentucky  
November 11, 2008

**SPENCER COUNTY SCHOOL DISTRICT –TAYLORSVILLE, KY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2008**

As management of the Spencer County School District (District), we offer readers of the District’s financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

**FINANCIAL HIGHLIGHTS**

- The ending cash balance for the District was \$10.3 million in 2008, including a construction fund cash balance of approximately \$6.5 million. The ending cash balance for the District was \$2.8 million in 2007.
- No funds of the District have a deficit fund balance.
- The District purchased three new buses during the fiscal year 2008 through the KISTA lease program. The District also continues to purchase well maintained used buses to replace the District’s aging fleet.
- With a focus on student achievement, the District provides full-day kindergarten. The District, committed to early literacy and childhood development, is pursuing the vision of full day preschool for all four year olds. The District approved a tuition based preschool program in 2008 to begin with the 2009 school year.
- The District continues to experience growth. The growth rate experienced in fiscal year 2008 was 5.3%. Projections recognize additional growth of 1.6% for fiscal year 2009.
- Following the amendment of the District long-range plan for facilities, there is a focus on investing in plant management with the age and size of our facilities reflective of this need.
- The Board approved renovation and an addition to the high school facility which currently houses 750 students, grades 9-12. The addition will allow for an additional 250 students. The approved cost of the project is \$11,465,617. In July 2007, bonds totaling \$11,380,000 were issued with an average coupon rate of 4.29. The District broke ground in August 2007. The renovation project is on schedule and should be complete January 2009.
- The District’s General Fund had receipts of \$14.9 million, which primarily consisted of the state (SEEK), property, motor vehicle and utility taxes. There was \$14.5 in General Fund expenditures. As the District entered into the fiscal year 2008, budget concerns were focused on competitive salaries for teachers, increased transportation cost, increased utility cost, staffing needs and pursuing the district vision for technology based learning. The District continues to monitor their operations to identify and correct any inefficiency in their operations.
- The District, with the exception of staff stipends, does not provide funds to assist the schools with the cost of extracurricular activities. Fundraising and gate receipts provide the majority of the funds for these activities. Due to rising cost of transportation, the District is currently looking at ways to reduce the transportation cost and assist the schools with funding of the extracurricular activities.
- The District has no industrial tax base. The District’s property tax base is derived from residential growth and assessments. The property assessment value grew 13.5% in fiscal year 2008. The District approved their property tax rates under House Bill 44 with a 4% increase. The property tax rate has decreased three years consecutively.
- The District continues to pursue grants and donations for instructional and extracurricular programs. Grants and donations awarded in 2008 totaled \$195,850.

**SPENCER COUNTY SCHOOL DISTRICT – TAYLORSVILLE, KY**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)**  
**YEAR ENDED JUNE 30, 2008**

- Bonds are issued as the district constructs or renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The District’s total debt increased \$8.8 million during the current fiscal year.
- The District incurred storm damages to property at an estimated value of \$162,500 during the fiscal year. The District is insured for replacement value of the property.
- The District is paying very close attention to the declining economy. The possible impact of property foreclosures on assessment values, a decline in state revenue impacting education funding, a possible decrease in enrollment growth due to job losses in the community and declining market values impacting interest revenue on investments will have an impact on the District’s ability to meet their objectives. Nine employees received non-renewals of their contracts in April 2008 as a direct result of Kentucky legislature’s biennial budget. The District budget for the 2009 fiscal year projects an estimated 2.5% reduction in their contingency funds.

**SPENCER COUNTY SCHOOL DISTRICT – TAYLORSVILLE, KY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2008**

**OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the District’s basic financial statements. The District’s basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the District’s finances, in a manner similar to a private-sector business.

The government –wide financial statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of Governmental and Business-Type Activities for the District accompanied by a total column. The statement of net assets presents information on all of the District’s assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the district is improving or deteriorating. The statement of activities presents information showing how the District’s net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event given rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

These statements are presented on an “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all of the District’s assets and liabilities, including capital assets as well as long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability incurred. The types of transactions reported as program revenues for the District are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

The government-wide financial statements can be found on pages 10 - 12 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The proprietary funds are our vending and food service operations and our before and after school child care services. All other activities of the district are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 13 - 23 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of a government’s financial position. In the case of the District, assets exceeded liabilities by \$8.0 million as of June 30, 2008.



**SPENCER COUNTY SCHOOL DISTRICT – TAYLORSVILLE, KY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2008**

The largest portion of the District’s net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress); less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District’s financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

**Net Assets for the period ending June 30, 2008 & 2007**

|   | Governmental activities |                        | Business type activities |                     | Total                  |                        |
|---|-------------------------|------------------------|--------------------------|---------------------|------------------------|------------------------|
|   | 2008                    | 2007                   | 2008                     | 2007                | 2008                   | 2007                   |
| Current and other assets                        | 10,611,238.70           | 3,408,683.34           | 161,829.45               | 158,268.76          | 10,773,068.15          | 3,531,474.68           |
| Capital Assets                                  | 30,755,267.63           | 25,477,586.26          | 238,782.55               | 261,315.96          | 30,994,050.18          | 25,774,379.64          |
| <b>Total Assets</b>                             | <b>\$41,366,506.33</b>  | <b>\$28,886,269.60</b> | <b>\$400,612.00</b>      | <b>\$419,584.72</b> | <b>\$41,767,118.33</b> | <b>\$29,305,854.32</b> |
|   |                         |                        |                          |                     |                        |                        |
| Long-term liabilities outstanding               | 31,467,608.08           | 21,138,277.88          | -                        | -                   | 31,467,608.08          | 21,138,277.88          |
| Other liabilities                               | 2,234,306.10            | 1,506,543.00           | 16,544.31                | 14,427.34           | 2,250,850.41           | 1,520,970.34           |
| <b>Total liabilities</b>                        | <b>\$33,701,914.18</b>  | <b>\$22,644,820.88</b> | <b>\$16,544.31</b>       | <b>\$14,427.34</b>  | <b>\$33,718,458.49</b> | <b>\$22,659,248.22</b> |
|   |                         |                        |                          |                     |                        |                        |
| <b>Net assets:</b>                              |                         |                        |                          |                     |                        |                        |
| Invested in capital assets, net of related debt | (1,727,532.83)          | 3,374,450.98           | 238,782.55               | 261,315.96          | (1,488,750.28)         | 3,635,766.94           |
| Restricted                                      | 5,926,049.34            | 692,618.23             | -                        | -                   | 5,926,049.34           | 692,618.23             |
| Unrestricted                                    | 3,466,075.64            | 2,174,379.51           | 145,285.14               | 143,841.42          | 3,611,360.78           | 2,318,220.93           |
| <b>Total Net Assets</b>                         | <b>\$7,664,592.15</b>   | <b>\$6,241,448.72</b>  | <b>\$384,067.69</b>      | <b>\$405,157.38</b> | <b>\$8,048,659.84</b>  | <b>\$6,646,606.10</b>  |

The following are significant current year transactions that have had an impact on the Statement of Net Assets.

**Comments on Budget Comparisons**

- The District’s total revenues for the fiscal year ended June 30, 2008, net of Interfund transfers were \$22.559 million.
- General fund budget compared to actual revenue varied slightly from line item to line item with the ending actual balance being \$3.514 million more than budget.
- The total cost of all programs and services was \$17.442 million net of debt service.

**SPENCER COUNTY SCHOOL DISTRICT – TAYLORSVILLE, KY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)**

**YEAR ENDED JUNE 30, 2008**

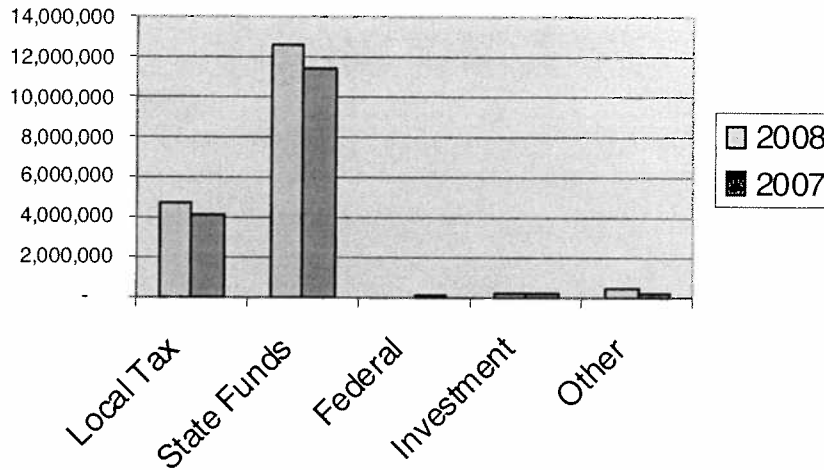
The following table presents a summary of revenue and expense for the fiscal year ended June 30, 2008 and 2007.

|  | Governmental<br>activities |                       | Business type activities |                     | Total                 |                       |
|--|----------------------------|-----------------------|--------------------------|---------------------|-----------------------|-----------------------|
|  | 2008                       | 2007                  | 2008                     | 2007                | 2008                  | 2007                  |
| <b>Program Revenues:</b>                 |                            |                       |                          |                     |                       |                       |
| Charges for services                     | 117,890.98                 | 83,675.32             | 845,094.02               | 766,461.31          | 962,985.00            | 850,136.63            |
| Operating grants and contributions       | 43,156.26                  | -                     | 6,033.68                 | 37,227.00           | 49,189.94             | 37,227.00             |
| Capital grants and contributions         | -                          | -                     | -                        | -                   | -                     | -                     |
| <b>General Revenues</b>                  |                            |                       |                          |                     |                       |                       |
| <b>Taxes</b>                             |                            |                       |                          |                     |                       |                       |
| Property Taxes                           | 4,979,160.18               | 4,389,785.52          | -                        | -                   | 4,979,160.18          | 4,389,785.52          |
| Motor Vehicle Taxes                      | 639,488.92                 | 578,089.37            | -                        | -                   | 639,488.92            | 578,089.37            |
| Utility Taxes                            | 679,568.12                 | 574,632.32            | -                        | -                   | 679,568.12            | 574,632.32            |
| Investment Earnings                      | 464,341.39                 | 219,264.51            | 4,566.35                 | 7,925.26            | 468,907.74            | 227,189.77            |
| State & Formula Grants                   | 15,907,346.86              | 15,059,149.61         | 652,986.48               | 585,361.03          | 16,560,333.34         | 15,644,510.64         |
| Federal Grants                           | -                          | -                     | -                        | -                   | -                     | -                     |
| Gains On Sales Of Fixed Assets           | 215,484.50                 | (2,649.86)            | -                        | -                   | 215,484.50            | (2,649.86)            |
| Miscellaneous                            | 160,873.97                 | 299,833.90            | -                        | -                   | 160,873.97            | 299,833.90            |
| <b>Total Revenues</b>                    | <b>23,207,311.18</b>       | <b>21,201,780.69</b>  | <b>1,508,680.53</b>      | <b>1,396,974.60</b> | <b>24,715,991.71</b>  | <b>22,598,755.29</b>  |
| <b>Expenses</b>                          |                            |                       |                          |                     |                       |                       |
| <b>Program activities:</b>               |                            |                       |                          |                     |                       |                       |
| Instruction                              | 12,020,832.61              | 11,141,359.83         |                          |                     | 12,020,832.61         | 11,141,359.83         |
| Student support                          | 930,654.96                 | 677,184.62            |                          |                     | 930,654.96            | 677,184.62            |
| Instructional staff support              | 914,792.33                 | 953,248.36            |                          |                     | 914,792.33            | 953,248.36            |
| District admin. support                  | 552,983.81                 | 574,922.53            |                          |                     | 552,983.81            | 574,922.53            |
| School admin. support                    | 1,250,575.84               | 1,189,207.92          |                          |                     | 1,250,575.84          | 1,189,207.92          |
| Business support                         | 558,836.85                 | 512,897.58            |                          |                     | 558,836.85            | 512,897.58            |
| Plant operation and maint.               | 1,633,144.27               | 1,570,535.02          |                          |                     | 1,633,144.27          | 1,570,535.02          |
| Student transportation                   | 1,362,283.55               | 1,424,397.98          |                          |                     | 1,362,283.55          | 1,424,397.98          |
| Other                                    | -                          | 159.76                |                          |                     | -                     | 159.76                |
| Facilities acquisition and construction  |                            | -                     |                          |                     |                       | -                     |
| Enterprise operation                     |                            | -                     |                          |                     |                       | -                     |
| Building Renovations                     |                            | -                     |                          |                     |                       | -                     |
| Community service activities             | 176,358.54                 | 192,109.76            |                          |                     | 176,358.54            | 192,109.76            |
| Interest costs                           | 1,202,481.53               | 1,027,863.27          |                          |                     | 1,202,481.53          | 1,027,863.27          |
| Bond Discount Amortization               |                            | -                     |                          |                     |                       | -                     |
| Depreciation                             | 901,552.78                 | 877,299.41            |                          |                     | 901,552.78            | 877,299.41            |
| <b>Business-type activities:</b>         |                            |                       |                          |                     |                       |                       |
| Food service                             |                            |                       | 1,280,401.45             | 1,180,722.33        | 1,280,401.45          | 1,180,722.33          |
| Adult education                          |                            |                       |                          | -                   |                       | -                     |
| Child care                               |                            |                       | 249,368.77               | 226,088.93          | 249,368.77            | 226,088.93            |
| <b>Total Expenses</b>                    | <b>21,504,497.07</b>       | <b>20,141,186.04</b>  | <b>1,529,770.22</b>      | <b>1,406,811.26</b> | <b>23,034,267.29</b>  | <b>21,547,997.30</b>  |
| <b>Increase (Decrease) in Net Assets</b> | <b>\$1,702,814.11</b>      | <b>\$1,060,594.65</b> | <b>\$(21,089.69)</b>     | <b>\$(9,836.66)</b> | <b>\$1,681,724.42</b> | <b>\$1,050,757.99</b> |
| Net Assets- Beginning                    | 6,241,448.72               | 5,180,854.07          | 405,157.38               | 414,994.04          | 6,646,606.10          | 5,595,848.11          |
| Prior Period Adjustment                  | (279,710.68)               |                       |                          |                     | (279,710.68)          |                       |
| Net Assets- Ending                       | <b>\$7,664,592.15</b>      | <b>\$6,241,448.72</b> | <b>\$384,067.69</b>      | <b>\$405,157.38</b> | <b>\$8,048,659.84</b> | <b>\$6,646,606.10</b> |

**SPENCER COUNTY SCHOOL DISTRICT – TAYLORSVILLE, KY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2008**

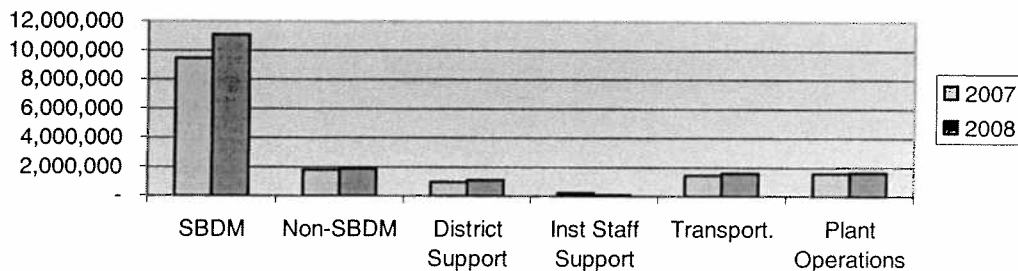
**General Fund Revenue**

The majority of revenue in 2008 was derived from state funding (70.5%) as compared with fiscal 2007 (72%). The local tax revenue makes up 26% as compared to 26% of total revenue in 2007.



**Budget Allocation**

Site Based Decision Making Councils expended 64% of the general fund budget, the majority of the Non-SBDM funds (11%) were spent serving children with special needs, providing district wide gifted and talented instruction and alternative instruction. The remaining 25% was expended for district support services (6%), instructional staff support (1%), transportation (9%), and plant operation (9%).



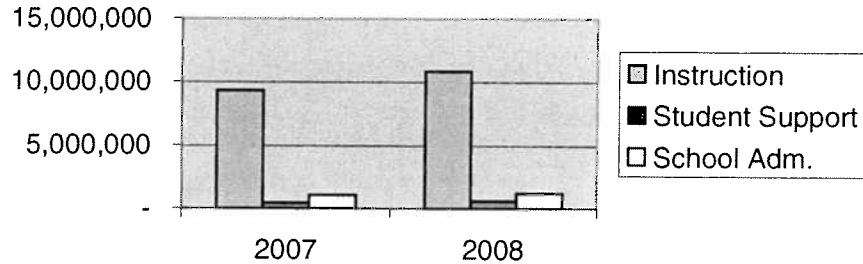
**BUDGETARY IMPLICATIONS**

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal year, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The district adopted a budget with \$1,266,925 in contingency, APPROXIMATELY (6.2%).

**SPENCER COUNTY SCHOOL DISTRICT – TAYLORSVILLE, KY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2008**

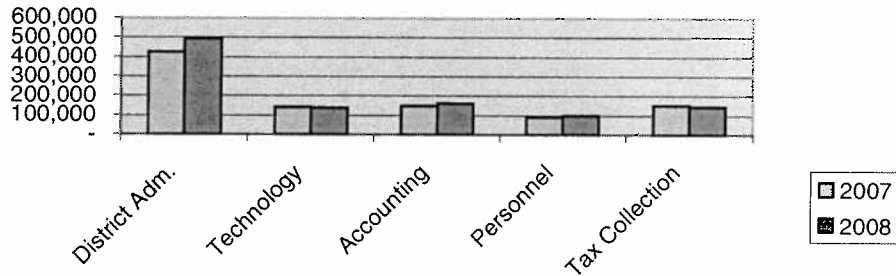
**School Allocation**

Classroom instruction accounts for 86% of the school level expenditures.



**Central Office Allocation**

Many members of the community are interested in monitoring Central Office Support Services. District administration (school board activities, superintendent's office and director of operations), technology department, accounting department, personnel department and tax collection fees make up the Central Office Support Services.



**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24 - 38 of this report.

**ADDITIONAL CONTACT INFORMATION**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. Questions regarding this report or requests for additional information should be directed to Vicki Goodlett, Spencer County School District Finance Officer, 207 W. Main Street, Taylorsville, Kentucky, 40071, (502) 477-3250.

**SPENCER COUNTY SCHOOL DISTRICT**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2008**

| <b>Assets</b>                                   | <b>Governmental<br/>Activities</b> | <b>Business Type<br/>Activities</b> | <b>Total</b>            |
|---|------------------------------------|-------------------------------------|-------------------------|
| <b><u>Current Assets</u></b>                    |                                    |                                     |                         |
| Cash & Cash Equivalents                         | \$ 10,187,965.62                   | \$ 79,165.88                        | \$ 10,267,131.50        |
| Inventory                                       | -                                  | 12,804.92                           | 12,804.92               |
| Accounts Receivable                             | 423,273.08                         | 69,858.65                           | 493,131.73              |
| Investments                                     | -                                  | -                                   | -                       |
| Total Current Assets                            | \$ 10,611,238.70                   | \$ 161,829.45                       | \$ 10,773,068.15        |
| <b><u>Noncurrent Assets</u></b>                 |                                    |                                     |                         |
| Capital Assets                                  | \$ 31,745,797.29                   | \$ 562,442.49                       | \$ 32,308,239.78        |
| Accumulated Depreciation                        | (7,323,326.28)                     | (323,659.94)                        | (7,646,986.22)          |
| Construction In Progress                        | 6,332,796.62                       | -                                   | 6,332,796.62            |
| Total Noncurrent Assets                         | \$ 30,755,267.63                   | \$ 238,782.55                       | \$ 30,994,050.18        |
| Total Assets                                    | <u>\$ 41,366,506.33</u>            | <u>\$ 400,612.00</u>                | <u>\$ 41,767,118.33</u> |
| <b>Liabilities &amp; Net Assets</b>             |                                    |                                     |                         |
| <b><u>Current Liabilities</u></b>               |                                    |                                     |                         |
| Accounts Payable                                | \$ 759,501.64                      | \$ 16,544.31                        | \$ 776,045.95           |
| Deferred Revenue                                | 153,117.29                         | -                                   | 153,117.29              |
| Current Portion Of Bond Obligations             | 1,233,329.49                       | -                                   | 1,233,329.49            |
| Current Portion Of Accrued Sick Leave           | 65,048.89                          | -                                   | 65,048.89               |
| Loan Payable                                    | 23,308.79                          | -                                   | 23,308.79               |
| Total Current Liabilities                       | \$ 2,234,306.10                    | \$ 16,544.31                        | \$ 2,250,850.41         |
| <b><u>Noncurrent Liabilities</u></b>            |                                    |                                     |                         |
| Noncurrent Portion Of Bond Obligations          | \$ 31,249,470.97                   | \$ -                                | \$ 31,249,470.97        |
| Noncurrent Portion Of Accrued Sick Leave        | 218,137.11                         | -                                   | 218,137.11              |
| Total Noncurrent Liabilities                    | \$ 31,467,608.08                   | \$ -                                | \$ 31,467,608.08        |
| Total Liabilities                               | <u>\$ 33,701,914.18</u>            | <u>\$ 16,544.31</u>                 | <u>\$ 33,718,458.49</u> |
| <b><u>Net Assets</u></b>                        |                                    |                                     |                         |
| Invested In Capital Assets, Net Of Related Debt | \$ (1,727,532.83)                  | \$ 238,782.55                       | \$ (1,488,750.28)       |
| Restricted For:                                 |                                    |                                     |                         |
| Construction                                    | 5,835,049.34                       | -                                   | 5,835,049.34            |
| Future Use                                      | 91,000.00                          | -                                   | 91,000.00               |
| Unrestricted                                    | 3,466,075.64                       | 145,285.14                          | 3,611,360.78            |
| Total Net Assets                                | <u>\$ 7,664,592.15</u>             | <u>\$ 384,067.69</u>                | <u>\$ 8,048,659.84</u>  |

See independent auditor's report and accompanying notes to financial statements.

**SPENCER COUNTY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2008**

| <b>FUNCTIONS / PROGRAMS</b>           | <b>Expenses</b>        | <b>Program Revenues</b>             |   |   |
|---------------------------------------|------------------------|-------------------------------------|---|---|
|                                       |                        | <b>Charges<br/>For<br/>Services</b> | <b>Operating<br/>Grants &amp;<br/>Contributions</b> | <b>Capital<br/>Grants &amp;<br/>Contributions</b> |
| <b>Governmental Activities:</b>       |                        |                                     |   |   |
| Instruction                           | \$12,020,832.61        | \$ -                                | \$ 43,156.26  | \$ -  |
| Support Services:                     |                        |                                     |   |   |
| Student                               | 930,654.96             | -                                   | -   | -   |
| Instruction Staff                     | 914,792.33             | -                                   | -   | -   |
| District Administration               | 552,983.81             | -                                   | -   | -   |
| School Administration                 | 1,250,575.84           | -                                   | -   | -   |
| Business                              | 558,836.85             | -                                   | -   | -   |
| Plant Operation & Maintenance         | 1,633,144.27           | 45,186.00                           | -   | -   |
| Student Transportation                | 1,362,283.55           | 72,704.98                           | -   | -   |
| Central Office                        | -                      | -                                   | -   | -   |
| Facilities Acquisition & Construction | -                      | -                                   | -   | -   |
| Community Service Activities          | 176,358.54             | -                                   | -   | -   |
| Other                                 | -                      | -                                   | -   | -   |
| Interest On Long-Term Debt            | 1,202,481.53           | -                                   | -   | -   |
| Depreciation                          | 901,552.78             | -                                   | -   | -   |
| <b>Total Governmental Activities</b>  | <b>\$21,504,497.07</b> | <b>\$ 117,890.98</b>                | <b>\$ 43,156.26</b>                                 | <b>\$ -</b>                                       |
| <b>Business Type Activities:</b>      |                        |                                     |   |   |
| Food Service                          | \$ 1,280,401.45        | \$ 622,960.57                       | \$ -  | \$ -  |
| Child Care                            | 249,368.77             | 222,133.45                          | 6,033.68  | -   |
| <b>Total Business Type Activities</b> | <b>\$ 1,529,770.22</b> | <b>\$ 845,094.02</b>                | <b>\$ 6,033.68</b>                                  | <b>\$ -</b>                                       |
| <b>Total Primary Government</b>       | <b>\$23,034,267.29</b> | <b>\$ 962,985.00</b>                | <b>\$ 49,189.94</b>                                 | <b>\$ -</b>                                       |

See independent auditor's report and accompanying notes to financial statements.

**SPENCER COUNTY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2008**

**Net (Expense) Revenue And  
Changes In Net Assets**

| <u>Governmental<br/>Activities</u> | <u>Business Type<br/>Activities</u> | <u>Total</u>             |
|------------------------------------|-------------------------------------|--------------------------|
| \$(11,977,676.35)                  | \$ -                                | \$(11,977,676.35)        |
| (930,654.96)                       | -                                   | (930,654.96)             |
| (914,792.33)                       | -                                   | (914,792.33)             |
| (552,983.81)                       | -                                   | (552,983.81)             |
| (1,250,575.84)                     | -                                   | (1,250,575.84)           |
| (558,836.85)                       | -                                   | (558,836.85)             |
| (1,587,958.27)                     | -                                   | (1,587,958.27)           |
| (1,289,578.57)                     | -                                   | (1,289,578.57)           |
| -                                  | -                                   | -                        |
| -                                  | -                                   | -                        |
| (176,358.54)                       | -                                   | (176,358.54)             |
| -                                  | -                                   | -                        |
| (1,202,481.53)                     | -                                   | (1,202,481.53)           |
| (901,552.78)                       | -                                   | (901,552.78)             |
| \$(21,343,449.83)                  | \$ -                                | \$(21,343,449.83)        |
| \$ -                               | \$ (657,440.88)                     | \$ (657,440.88)          |
| -                                  | (21,201.64)                         | (21,201.64)              |
| \$ -                               | \$ (678,642.52)                     | \$ (678,642.52)          |
| <u>\$(21,343,449.83)</u>           | <u>\$ (678,642.52)</u>              | <u>\$(22,022,092.35)</u> |

**General Revenues:**

|                                |                        |                      |                        |
|--------------------------------|------------------------|----------------------|------------------------|
| Taxes:                         |                        |                      |                        |
| Property Taxes                 | \$ 4,979,160.18        | \$ -                 | \$ 4,979,160.18        |
| Motor Vehicles Taxes           | 639,488.92             | -                    | 639,488.92             |
| Utility Taxes                  | 679,568.12             | -                    | 679,568.12             |
| Investment Earnings            | 464,341.39             | 4,566.35             | 468,907.74             |
| State & Formula Grants         | 15,907,346.86          | 652,986.48           | 16,560,333.34          |
| Gains On Sales Of Fixed Assets | 215,484.50             | -                    | 215,484.50             |
| Miscellaneous                  | 160,873.97             | -                    | 160,873.97             |
| Change In Net Assets           | \$ 1,702,814.11        | \$ (21,089.69)       | \$ 1,681,724.42        |
| Net Assets - Beginning         | <u>\$ 6,241,488.72</u> | <u>\$ 405,157.38</u> | <u>\$ 6,646,646.10</u> |
| Prior Period Adjustment        | \$ (279,710.68)        | \$ -                 | \$ (279,710.68)        |
| Net Assets - Ending            | <u>\$ 7,664,592.15</u> | <u>\$ 384,067.69</u> | <u>\$ 8,048,659.84</u> |

See independent auditor's report and accompanying notes to financial statements.

**SPENCER COUNTY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2008**

|   | <u>General<br/>Fund</u>      | <u>Special<br/>Revenue</u>  |
|---|------------------------------|-----------------------------|
| <b>Assets &amp; Resources:</b>              |                              |                             |
| Cash & Cash Equivalents                     | \$1,861,310.56               | \$ (7,541.61)               |
| Accounts Receivable                         | 202,722.20                   | 220,550.88                  |
| Investments                                 | -                            | -                           |
|   | <u>                    </u>  | <u>                    </u> |
| Total Assets & Resources                    | <u><u>\$2,064,032.76</u></u> | <u><u>\$ 213,009.27</u></u> |
| <br><b>Liabilities &amp; Fund Balances:</b> |                              |                             |
| <b>Liabilities</b>                          |                              |                             |
| Accounts Payable                            | \$ 84,694.10                 | \$ 36,583.19                |
| Deferred Revenue                            | -                            | 153,117.29                  |
| Note Payable                                | -                            | 23,308.79                   |
|   | <u>                    </u>  | <u>                    </u> |
| Total Liabilities                           | \$ 84,694.10                 | \$ 213,009.27               |
| <br><b>Fund Balances:</b>                   |                              |                             |
| Reserved:                                   |                              |                             |
| Reserved For Future Use                     | \$ 91,000.00                 | \$ -                        |
| Unreserved:                                 |                              |                             |
| Undesignated, reported in:                  |                              |                             |
| General Fund                                | \$1,888,338.66               | \$ -                        |
| Special Revenue Funds                       | -                            | -                           |
| Capital Projects Funds                      | -                            | -                           |
| Permanent Funds                             | -                            | -                           |
|   | <u>                    </u>  | <u>                    </u> |
| Total Fund Balances                         | <u><u>\$1,979,338.66</u></u> | <u><u>\$ -</u></u>          |
| Total Liabilities & Fund Balances           | <u><u>\$2,064,032.76</u></u> | <u><u>\$ 213,009.27</u></u> |

See independent auditor's report and accompanying notes to financial statements.



**SPENCER COUNTY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2008**

| <b>Construction<br/>Fund</b> | <b>Other<br/>Governmental<br/>Funds</b> | <b>Total<br/>Governmental<br/>Funds</b> |
|------------------------------|---|---|
| \$ 6,473,273.69              | \$1,860,922.98                          | \$10,187,965.62                         |
| -                            | -                                       | 423,273.08                              |
| -                            | -                                       | -                                       |
| <u>\$ 6,473,273.69</u>       | <u>\$1,860,922.98</u>                   | <u>\$10,611,238.70</u>                  |
| <br>                         |   |   |
| \$ 638,224.35                | \$ -                                    | \$ 759,501.64                           |
| -                            | -                                       | \$ 153,117.29                           |
| -                            | -                                       | 23,308.79                               |
| <u>-</u>                     | <u>-</u>                                | <u>-</u>                                |
| \$ 638,224.35                | \$ -                                    | \$ 935,927.72                           |
| <br>                         |   |   |
| \$ 5,835,049.34              | \$1,860,922.98                          | \$ 7,786,972.32                         |
| <br>                         |   |   |
| \$ -                         | \$ -                                    | \$ 1,888,338.66                         |
| -                            | -                                       | -                                       |
| -                            | -                                       | -                                       |
| -                            | -                                       | -                                       |
| <u>-</u>                     | <u>-</u>                                | <u>-</u>                                |
| <u>\$ 5,835,049.34</u>       | <u>\$1,860,922.98</u>                   | <u>\$ 9,675,310.98</u>                  |
| <u>\$ 6,473,273.69</u>       | <u>\$1,860,922.98</u>                   | <u>\$10,611,238.70</u>                  |

See independent auditor's report and accompanying notes to financial statements.

**SPENCER COUNTY SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET  
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2008**

|   |                               |
|---|-------------------------------|
| Total fund balance per fund financial statements  | \$ 9,675,310.98               |
| Amounts reported for governmental activities in the statement of net assets are different because:  |                               |
| Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net assets.  | 24,422,471.01                 |
| Certain long-term assets are not reported in this fund financial statements because they are not available to pay current-period expenditures, but they are reported in the statement of net assets.  | 6,332,796.62                  |
| Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net assets. | <u>(32,765,986.46)</u>        |
| Net assets for governmental activities  | <u><u>\$ 7,664,592.15</u></u> |

See independent auditor's report and accompanying notes to financial statements.

**SPENCER COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2008**

|   | General Fund            | Special Revenue        |
|---|-------------------------|------------------------|
| <b>Revenues:</b>  |                         |                        |
| From local sources  |                         |                        |
| Taxes   |                         |                        |
| Property  | \$ 3,379,986.18         | \$ -                   |
| Motor Vehicle   | 639,488.92              | -                      |
| Utilities   | 679,568.12              | -                      |
| Tuition And Fees  | -                       | -                      |
| Transportation  | 72,704.98               | -                      |
| Earnings On Investments   | 145,667.69              | 614.64                 |
| Other Local Revenues  | 125,582.02              | 43,006.26              |
| Intergovernmental - Intermediate  |                         | -                      |
| Intergovernmental - State   | 12,559,647.89           | 1,157,694.00           |
| Intergovernmental - Indirect Federal  | -                       | -                      |
| Intergovernmental - Direct Federal  | 52.60                   | 1,121,552.59           |
| Total Revenues  | <u>\$ 17,602,698.40</u> | <u>\$ 2,322,867.49</u> |
| <b>Expenditures</b>   |                         |                        |
| Instruction   | \$ 10,513,567.49        | \$ 1,632,991.92        |
| Support Services:   |                         |                        |
| Student   | 753,256.36              | 177,398.60             |
| Instruction Staff   | 623,854.18              | 290,938.15             |
| District Administration   | 552,983.81              | -                      |
| School Administrative   | 1,204,861.43            | 45,714.41              |
| Business  | 554,807.40              | 5,309.42               |
| Plant Operation & Maintenance   | 1,614,492.49            | 1,817.48               |
| Student Transportation  | 1,566,572.29            | 30,708.26              |
| Central Office  | -                       | -                      |
| Facilities Acquisition & Maintenance  | -                       | -                      |
| Community Service Activities  | 196.24                  | 176,162.30             |
| Debt Service  | 58,006.27               | -                      |
| Total Expenditures  | <u>\$ 17,442,597.96</u> | <u>\$ 2,361,040.54</u> |
| <b>Excess (Deficit) Of Revenues Over Expenditures</b>   | <b>\$ 160,100.44</b>    | <b>\$ (38,173.05)</b>  |
| <b>Other Financing Sources (Uses)</b>   |                         |                        |
| Proceeds From Sale Of Bonds   | \$ -                    | \$ -                   |
| Proceeds From Sale Of Fixed Assets  | 173,222.39              | -                      |
| Operating Transfers In  | 28,671.58               | 38,173.05              |
| Operating Transfers Out   | (55,689.39)             | -                      |
| Total Other Financing Sources (Uses)  | <u>\$ 146,204.58</u>    | <u>\$ 38,173.05</u>    |
| <b>Excess (Deficit) Of Revenue &amp; Other Financing Sources Over Expenditures &amp; Other Financing Uses</b> | <b>\$ 306,305.02</b>    | <b>\$ 0.00</b>         |
| <b>Fund Balance, July 1, 2007</b>   | <b>1,673,033.64</b>     | <b>-</b>               |
|   |                         | <b>-</b>               |
| <b>Fund Balance, June 30, 2008</b>  | <b>\$ 1,979,338.66</b>  | <b>\$ 0.00</b>         |

See independent auditor's report and accompanying notes to financial statements.

**SPENCER COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2008**

| <u>Construction<br/>Fund</u> | <u>Other<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|------------------------------|---|---|
| \$ -                         | \$ 1,599,174.00                         | \$ 4,979,160.18                         |
| -                            | -                                       | 639,488.92                              |
| -                            | -                                       | 679,568.12                              |
| -                            | -                                       | -                                       |
| -                            | -                                       | 72,704.98                               |
| 247,865.44                   | 70,193.62                               | 464,341.39                              |
| -                            | -                                       | 168,588.28                              |
| -                            | -                                       | -                                       |
| -                            | 716,468.00                              | 14,433,809.89                           |
| -                            | -                                       | -                                       |
| -                            | -                                       | 1,121,605.19                            |
| <u>\$ 247,865.44</u>         | <u>\$ 2,385,835.62</u>                  | <u>\$ 22,559,266.95</u>                 |
| <br>\$ -                     | <br>\$ -                                | <br>\$ 12,146,559.41                    |
| -                            | -                                       | 930,654.96                              |
| -                            | -                                       | 914,792.33                              |
| -                            | -                                       | 552,983.81                              |
| -                            | -                                       | 1,250,575.84                            |
| -                            | 1,609.03                                | 561,725.85                              |
| -                            | 45,269.00                               | 1,661,578.97                            |
| -                            | -                                       | 1,597,280.55                            |
| -                            | -                                       | -                                       |
| 5,810,332.44                 | -                                       | 5,810,332.44                            |
| -                            | -                                       | 176,358.54                              |
| -                            | 1,762,998.71                            | 1,821,004.98                            |
| <u>\$ 5,810,332.44</u>       | <u>\$ 1,809,876.74</u>                  | <u>\$ 27,423,847.68</u>                 |
| <br>\$ (5,562,467.00)        | <br>\$ 575,958.88                       | <br>\$ (4,864,580.73)                   |
| <br>\$ 11,380,000.00         | <br>\$ -                                | <br>\$ 11,380,000.00                    |
| -                            | -                                       | 173,222.39                              |
| 17,516.34                    | -                                       | 84,360.97                               |
| -                            | -                                       | (55,689.39)                             |
| <u>\$ 11,397,516.34</u>      | <u>\$ -</u>                             | <u>\$ 11,581,893.97</u>                 |
| <br>\$ 5,835,049.34          | <br>\$ 575,958.88                       | <br>\$ 6,717,313.24                     |
| -                            | 1,284,964.10                            | 2,957,997.74                            |
| -                            | -                                       | -                                       |
| <u>\$ 5,835,049.34</u>       | <u>\$ 1,860,922.98</u>                  | <u>\$ 9,675,310.98</u>                  |

See independent auditor's report and accompanying notes to financial statements.

**SPENCER COUNTY SCHOOL DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2008**

|  |                               |
|--|-------------------------------|
| Net change in total fund balances per fund financial statements  | \$ 6,717,313.24               |
| Amounts reported for governmental activities in the statement of activities<br>are different because of the following:   |                               |
| Capital outlays are reported as expenditures in this fund financial statement<br>because they use current financial resources, but they are presented as<br>assets in the statement of activities and depreciated over their estimated<br>economic lives. The difference is the amount by which capital outlays<br>and the gain from the sale of assets exceeds depreciation expense for the year. | 5,343,089.27                  |
| Bond proceeds are reported as revenues in this fund statement because it creates<br>current financial resources, but they are separated and shown as long-term<br>debt on the statement of net assets.   | (11,380,000.00)               |
| Debt service payments are reported as expenditures in this fund financial statement<br>because they use current financial resources, but they are separated and shown<br>as payments of long term debt on the statement of net assets and interest expense<br>on the statement of activities. The difference is the amount of principal payment<br>made for the year.                              | 618,523.45                    |
| Participation from government agencies that aid the District debt are not reported in this<br>fund financial statement because there is no receipt of actual financial resources<br>concerning this aid. The amount received is shown on the statement of activities.  | 403,888.15                    |
| Change in net assets of governmental activities.   | <u><u>\$ 1,702,814.11</u></u> |

See Independent auditor's report and accompanying notes to financial statements.

**SPENCER COUNTY SCHOOL DISTRICT**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2008**

| <b>Assets</b>                                   | <b>Food<br/>Service<br/>Fund</b> | <b>Other<br/>Enterprise<br/>Funds</b> | <b>Total</b>         |
|---|----------------------------------|---------------------------------------|----------------------|
| <b><u>Current Assets</u></b>                    |                                  |                                       |                      |
| Cash & Cash Equivalents                         | \$ 79,165.88                     | \$ -                                  | \$ 79,165.88         |
| Inventory                                       | 12,804.92                        | -                                     | 12,804.92            |
| Accounts Receivable                             | 56,015.61                        | 13,843.04                             | 69,858.65            |
| Due From Other Funds                            | -                                | -                                     | -                    |
| Investments                                     | -                                | -                                     | -                    |
|   | <hr/>                            | <hr/>                                 | <hr/>                |
| Total Current Assets                            | \$ 147,986.41                    | \$ 13,843.04                          | \$ 161,829.45        |
| <b><u>Noncurrent Assets</u></b>                 |                                  |                                       |                      |
| Capital Assets                                  | \$ 562,442.49                    | \$ -                                  | \$ 562,442.49        |
| Accumulated Depreciation                        | (323,659.94)                     | -                                     | (323,659.94)         |
|   | <hr/>                            | <hr/>                                 | <hr/>                |
| Total Noncurrent Assets                         | \$ 238,782.55                    | \$ -                                  | \$ 238,782.55        |
|   | <hr/>                            | <hr/>                                 | <hr/>                |
| Total Assets                                    | <u>\$ 386,768.96</u>             | <u>\$ 13,843.04</u>                   | <u>\$ 400,612.00</u> |
| <b><u>Liabilities &amp; Net Assets</u></b>      |                                  |                                       |                      |
| <b><u>Current Liabilities</u></b>               |                                  |                                       |                      |
| Accounts Payable                                | \$ 9,259.55                      | \$ 7,284.76                           | \$ 16,544.31         |
| Accrued Payroll & Related Expenses              | -                                | -                                     | -                    |
| Due To Other Funds                              | -                                | -                                     | -                    |
|   | <hr/>                            | <hr/>                                 | <hr/>                |
| Total Current Liabilities                       | \$ 9,259.55                      | \$ 7,284.76                           | \$ 16,544.31         |
| <b><u>Net Assets</u></b>                        |                                  |                                       |                      |
| Invested In Capital Assets, Net Of Related Debt | \$ 238,782.55                    | \$ -                                  | \$ 238,782.55        |
| Unrestricted                                    | 138,726.86                       | 6,558.28                              | 145,285.14           |
|   | <hr/>                            | <hr/>                                 | <hr/>                |
| Total Net Assets                                | <u>\$ 377,509.41</u>             | <u>\$ 6,558.28</u>                    | <u>\$ 384,067.69</u> |

See Independent auditor's report and accompanying notes to financial statements.

**SPENCER COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN  
RETAINED EARNINGS - PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2008**

|  | <u>Food<br/>Service<br/>Fund</u> | <u>Other<br/>Enterprise<br/>Fund</u> | <u>Total</u>                |
|--|----------------------------------|--------------------------------------|-----------------------------|
| <b>Operating Revenues:</b>               |                                  |                                      |                             |
| Lunchroom Sales                          | \$ 622,960.57                    | \$ -                                 | \$ 622,960.57               |
| Other Operating Revenues                 | <u>-</u>                         | <u>227,846.80</u>                    | <u>227,846.80</u>           |
| Total Operating Revenues                 | \$ 622,960.57                    | \$ 227,846.80                        | \$ 850,807.37               |
| <b>Operating Expenses:</b>               |                                  |                                      |                             |
| Salaries & Wages                         | \$ 527,102.42                    | \$ 196,841.15                        | \$ 723,943.57               |
| Materials & Supplies                     | 675,383.58                       | 15,943.32                            | 691,326.90                  |
| Depreciation                             | 38,046.60                        | -                                    | 38,046.60                   |
| Other Operating Expenses                 | <u>39,868.85</u>                 | <u>36,584.30</u>                     | <u>76,453.15</u>            |
| Total Operating Expenses                 | <u>\$ 1,280,401.45</u>           | <u>\$ 249,368.77</u>                 | <u>\$ 1,529,770.22</u>      |
| Income (Loss) From Operations            | \$ (657,440.88)                  | \$ (21,521.97)                       | \$ (678,962.85)             |
| <b>Non-Operating Revenues (Expenses)</b> |                                  |                                      |                             |
| Federal Grants                           | \$ 558,717.00                    | \$ -                                 | \$ 558,717.00               |
| State Grants                             | 71,734.58                        | 22,534.90                            | 94,269.48                   |
| Interest Income                          | <u>4,566.35</u>                  | <u>320.33</u>                        | <u>4,886.68</u>             |
| Total Non-Operating Revenues (Expenses)  | <u>\$ 635,017.93</u>             | <u>\$ 22,855.23</u>                  | <u>\$ 657,873.16</u>        |
| Net Income (Loss)                        | \$ (22,422.95)                   | \$ 1,333.26                          | \$ (21,089.69)              |
| <b>Retained Earnings, July 1, 2007</b>   | <u>\$ 399,932.36</u>             | <u>\$ 5,225.02</u>                   | <u>\$ 405,157.38</u>        |
| <b>Retained Earnings, June 30, 2008</b>  | <u><u>\$ 377,509.41</u></u>      | <u><u>\$ 6,558.28</u></u>            | <u><u>\$ 384,067.69</u></u> |

See independent auditor's report and accompanying notes to financial statements.

**SPENCER COUNTY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2008**

**Cash Flows From Operating Activities**

|   |                    |
|---|--------------------|
| Cash received from:                       |                    |
| Lunchroom Sales                           | \$ 618,379.96      |
| Government Grants                         | 652,986.48         |
| Other Activities                          | 220,775.57         |
| Cash Paid To / For:                       |                    |
| Employees                                 | \$ (723,943.57)    |
| Supplies                                  | (676,707.74)       |
| Other Activities                          | <u>(89,849.37)</u> |
| Net Cash Provided By Operating Activities | \$ 1,641.33        |

**Cash Flows From Investing Activities**

|                            |                 |
|----------------------------|-----------------|
| Receipt Of Interest Income | <u>4,886.68</u> |
|----------------------------|-----------------|

|  |                    |
|--|--------------------|
| <b>Net Increase In Cash &amp; Cash Equivalents</b> | <b>\$ 6,528.01</b> |
|--|--------------------|

|                                    |                  |
|------------------------------------|------------------|
| <b>Balances, Beginning Of Year</b> | <u>72,637.87</u> |
|------------------------------------|------------------|

|                              |                            |
|------------------------------|----------------------------|
| <b>Balances, End Of Year</b> | <u><u>\$ 79,165.88</u></u> |
|------------------------------|----------------------------|

Reconciliation Of Operating Income (Loss) To Net Cash

|   |                |
|---|----------------|
| Provided (Used) By Operating Activities |                |
| Operating Income                        | \$ (21,089.69) |

Adjustments to reconcile operating income to net cash provided  
(used) by operating activities

|                                |                             |
|--------------------------------|-----------------------------|
| Depreciation                   | 38,046.60                   |
| Purchases of Equipment         | (15,513.19)                 |
| Interest                       | (4,886.68)                  |
| Change In Assets & Liabilities |                             |
| Receivables                    | (11,651.84)                 |
| Inventory                      | 14,619.16                   |
| Accounts Payable               | 2,116.97                    |
| Due To Other Funds             | <u>                    </u> |

|   |                                    |
|---|------------------------------------|
| Net Cash Provided By Operating Activities | <u><u>                    </u></u> |
|---|------------------------------------|

See independent auditor's report and accompanying notes to financial statements.



**SPENCER COUNTY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2008**

|                                 | <b>Private<br/>Purpose<br/>Trust<br/>Funds</b> | <b>Agency<br/>Funds</b> |
|---------------------------------|--|-------------------------|
| <b>Assets</b>                   |  |                         |
| Cash & Cash Equivalents         | \$ -   | \$ 280,477.11           |
| Due From Other Funds            | -  | -                       |
|                                 | <hr/>  | <hr/>                   |
| <b>Total Assets</b>             | \$ -   | \$ 280,477.11           |
| <b>Liabilities</b>              |  |                         |
| Accounts Payable                | \$ -   | \$ -                    |
| Due To Student Groups           | -  | 217,676.25              |
|                                 | <hr/>  | <hr/>                   |
| <b>Total Liabilities</b>        | \$ -   | \$ 217,676.25           |
|                                 | <hr/>  | <hr/>                   |
| <b>Net Assets Held In Trust</b> | <u>\$ -</u>                                    | <u>\$ 62,800.86</u>     |

See independent auditor's report and accompanying notes to financial statements.

**SPENCER COUNTY SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2008**

|                               | <b>Private<br/>Purpose<br/>Trust<br/>Funds</b> |
|-------------------------------|--|
| <b>Additions</b>              |  |
| Net Interest                  | \$ -   |
| <b>Deductions</b>             |  |
| Benefits paid                 | <u>\$ -</u>                                    |
| Change In Net Assets          | \$ -   |
| Net Assets, Beginning Of Year | <u>\$ -</u>                                    |
| Net Assets, End Of Year       | <u><u>\$ -</u></u>                             |

See independent auditor's report and accompanying notes to financial statements.

**SPENCER COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity

The Spencer County Board of Education ("Board"), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Spencer County Board of Education ("District"). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Spencer County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Spencer County Board of Education Finance Corporation – In a prior year the Board of Education resolved to authorize the establishment of the Spencer County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the "Corporation") as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation's Board of Directors.

Basis of Presentation

Government-wide Financial Statements –are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within the 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities accompanied by a total column.

**SPENCER COUNTY SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Accordingly, all of the District's assets and liabilities, including capital assets as well long-term liabilities are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as program revenues for the District are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated.

The District applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure. In addition, the District applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements to its business-type activities.

Fund Financial Statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are measurable and available each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

All governmental funds are accounted for on the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. The Statements of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financial sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the District are property tax and utility tax. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

**SPENCER COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED  
YEAR ENDED JUNE 30, 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on page 39. This is a major fund of the District.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
  - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the district's facility plan. This is a nonmajor fund of the District
  - 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the district's facility plan. This is a nonmajor fund of the District.
  - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.

**SPENCER COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED  
YEAR ENED JUNE 30, 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

(D) Debt Service Funds

The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost, and for the payment of interest on general obligation notes payable, as required by Kentucky Law. This is a nonmajor fund of the District.

II. Proprietary Fund Types (Enterprise Fund)

A. The Food Service and Summer Feeding Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund of the District.

B. The Day Care Fund is used to account for day care revenues. This is a nonmajor fund for the District.

III. Fiduciary Fund Type (Agency and Private Purpose Trust Funds)

A. The Agency fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.

**Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

**SPENCER COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED  
YEAR ENDED JUNE 30, 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Basis of Accounting - continued

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from non-exchange transactions must also be available before it can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2008, to finance the General Fund operations were \$.522 per \$100 valuation for real property, \$.540 per \$100 valuation for business personal property and \$.560 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the district, of telephonic and telegraphic communications services, electric power, water, and natural, artificial and mixed gas.

**SPENCER COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED  
YEAR ENDED JUNE 30, 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of technology purchases for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

| <u>Description</u>         | <u>Governmental Activities<br/>Estimated Lives</u> |
|----------------------------|--|
| Buildings and improvements | 25-50 years  |
| Land improvements          | 20 years   |
| Technology equipment       | 5 years  |
| Vehicles                   | 5-10 years   |
| Audio-visual equipment     | 15 years   |
| Food service equipment     | 10-12 years  |
| Furniture and fixtures     | 7 years  |
| Rolling Stock              | 15 years   |
| Other                      | 10 years   |

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.



**SPENCER COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED  
YEAR ENDED JUNE 30, 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The non-current portion of the liability is not reported.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Budgetary amendments are made during the year to reflect new revenue sources and the receipt of the District's growth calculation.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

GASB 31 requires investments to be carried at fair value with unrealized changes being recorded in the statements of revenues, expenditures and changes in fund balance. The District invests in Fixed Income Government Issues, whose cost approximates fair value.

**SPENCER COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED  
YEAR ENDED JUNE 30, 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Inventories

On government-wide financial statements inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method and the general fund uses the first-in, first-out method.

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2008 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the non-current portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories and fixed assets.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

**SPENCER COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED  
YEAR ENDED JUNE 30, 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools, and fees charged for Day Care Services.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**NOTE 2– ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**NOTE 3 – CASH AND CASH EQUIVALENTS**

At year-end, the carrying amount of the District's total cash and cash equivalents was \$10.2. Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's bank balances are covered by Federal Depository Insurance up to \$100,000 per financial institution, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

Breakdown per financial statements:

|                    |                         |
|--------------------|-------------------------|
| Governmental funds | \$ 10,187,965.62        |
| Proprietary funds  | <u>79,165.88</u>        |
|                    | \$ <u>10,267,131.50</u> |

In addition to the cash and cash equivalents listed above, the district has agency funds that are not included in the governmental funds or the proprietary fund balances. The agency funds (school activity funds) at year end were \$280,478.

**SPENCER COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED  
YEAR ENDED JUNE 30, 2008**

**NOTE 4 – BONDED DEBT AND LEASE OBLIGATIONS**

The original amount of each issue, the issue date, and interest rates are summarized below:

| Issue Date | Proceeds   | Rates       |
|------------|------------|-------------|
| 2007       | 11,380,000 | 4.29%       |
| 2005       | \$755,000  | 4.0%        |
| 2004       | 13,860,000 | 3.00%-5.00% |
| 2003       | 830,000    | 1.50%-3.50% |
| 1999       | 9,105,000  | 4.40%-4.50% |
| 1996       | 855,000    | 4.00%-5.00% |

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The district has entered into “participation agreements” with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2008 for debt service (principal and interest) are as follows:

**SPENCER COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
YEAR ENDED JUNE 30, 2008**

**NOTE 4 - BONDED DEBT AND LEASE OBLIGATIONS - CONTINUED**

|        |      | Spencer County<br>School District |                     |                      | Kentucky School<br>Construction Commission |                     |
|--------|------|-----------------------------------|---------------------|----------------------|--|---------------------|
| Year   |      | Total<br>Requirement              | Principal           | Interest             | Principal                                  | Interest            |
| 2008   | 2009 | 2,683,005                         | 922,547             | 1,255,934            | 310,782                                    | 193,741             |
| 2009   | 2010 | 2,650,422                         | 962,850             | 1,219,123            | 287,118                                    | 181,332             |
| 2010   | 2011 | 2,639,356                         | 1,001,422           | 1,177,894            | 290,220                                    | 169,820             |
| 2011   | 2012 | 2,632,981                         | 1,045,327           | 1,136,306            | 293,182                                    | 158,165             |
| 2012   | 2013 | 2,614,326                         | 1,075,047           | 1,091,850            | 301,007                                    | 146,422             |
| 2013   | 2014 | 2,612,580                         | 1,117,925           | 1,045,948            | 314,362                                    | 134,346             |
| 2014   | 2015 | 2,527,040                         | 1,144,702           | 997,727              | 262,950                                    | 121,660             |
| 2015   | 2016 | 2,520,278                         | 1,196,695           | 946,886              | 266,664                                    | 110,034             |
| 2016   | 2017 | 2,501,175                         | 1,229,761           | 893,037              | 280,239                                    | 98,138              |
| 2017   | 2018 | 2,498,006                         | 1,285,318           | 837,425              | 289,682                                    | 85,581              |
| 2018   | 2019 | 2,500,263                         | 1,344,110           | 777,792              | 305,890                                    | 72,471              |
| 2019   | 2020 | 2,332,506                         | 1,414,586           | 708,979              | 150,414                                    | 58,527              |
| 2020   | 2021 | 2,332,303                         | 1,482,565           | 640,797              | 157,435                                    | 51,506              |
| 2021   | 2022 | 2,333,013                         | 1,565,150           | 558,922              | 164,850                                    | 44,091              |
| 2022   | 2023 | 2,332,013                         | 1,642,312           | 480,758              | 172,688                                    | 36,255              |
| 2023   | 2024 | 2,331,538                         | 1,724,033           | 398,563              | 180,967                                    | 27,975              |
| 2024   | 2025 | 2,306,175                         | 1,812,333           | 311,204              | 162,667                                    | 19,971              |
| 2025   | 2026 | 2,262,825                         | 1,899,398           | 224,446              | 125,602                                    | 13,379              |
| 2026   | 2027 | 2,265,800                         | 1,988,615           | 138,204              | 131,385                                    | 7,596               |
| 2027   | 2028 | 2,229,050                         | 2,076,885           | 46,730               | 103,115                                    | 2,320               |
| 2028   | 2029 |                                   | -                   |                      |  |                     |
| 2029   | 2030 |                                   | -                   |                      |  |                     |
| Totals |      | <u>\$49,104,653</u>               | <u>\$27,931,581</u> | <u>\$ 14,888,523</u> | <u>\$ 4,551,219</u>                        | <u>\$ 1,733,329</u> |

**SPENCER COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED  
YEAR ENDED JUNE 30, 2008**

**NOTE 5 – RETIREMENT PLANS**

Kentucky Teachers' Retirement System

Certified employees participate in the Kentucky Teachers' Retirement System (KTRS), which is a cost sharing, multiple-employer retirement system created by and operating under Kentucky law.

The KTRS covers all certified full-time employees of each school board. The plan provides for retirement, disability and death benefits. KTRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained in writing from the KTRS, 479 Versailles Road, Frankfort, Kentucky 40601-3800.

Participating employees contribute 9.855% of creditable compensation. Matching contributions are made by the state. The federal program for any salaries paid by that program pays the matching contributions. The District contributed 13.105% of the employee's compensation paid by federal programs for the fiscal year ended June 30, 2008. The Board of Trustees of the Kentucky Retirement Systems determines the contribution rates.

Historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's June 30, 2008 comprehensive annual financial report which is available from Kentucky Retirement Systems. A copy may be obtained from the Legislative Research Library in Frankfort, Kentucky

**Three-year Trend Information**

| Fiscal Year Ended | Annual Amount Withheld from Employees | Annual Amount Contributed by the District | Total Amount Contributed |
|-------------------|---------------------------------------|---|--------------------------|
| 6/30/2006         | 828,080.09                            | 52,067.72                                 | 880,147.81               |
| 6/30/2007         | 857,137.81                            | 37,723.58                                 | 894,861.39               |
| 6/30/2008         | 941,539.10                            | 56,906.00                                 | 998,445.10               |

County Employees Retirement System

Employees who work on average of 80 hours per month over their contract participate in the County Employees Retirement System (CERS), which is a cost sharing, multiple-employer public employee's retirement system created by and operating under Kentucky law.

The CERS covers substantially all regular non-certified full-time employees of each county and school board, and any additional local agencies electing to participate. The plan provides for retirement, disability, and death benefits. CERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained in writing from the CERS, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky 40601-6124.

Participating employees contribute 5.00% of creditable compensation. The District contributed 16.17% of creditable compensation during the fiscal year ended June 30, 2008. The Board of Trustees of the Kentucky Retirement Systems determines the contribution rates.

Historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's June 30, 2008 comprehensive annual financial report which is available from Kentucky Retirement Systems. A copy may be obtained from the Legislative Research Library in Frankfort, Kentucky.

**Three-year Trend Information**

| Fiscal Year Ended | Annual Amount Withheld from Employees | Annual Amount Contributed by the District | Total Amount Contributed |
|-------------------|---------------------------------------|---|--------------------------|
| 6/30/2006         | 146,287.92                            | 321,138.76                                | 467,426.68               |
| 6/30/2007         | 153,769.10                            | 405,642.89                                | 559,411.99               |
| 6/30/2008         | 170,784.05                            | 552,315.63                                | 723,099.68               |

**SPENCER COUNTY SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 2008**

**NOTE 6 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2008 was as follows:

|  | Beginning<br>Balance | Increases    | Decreases  | Ending Balance  |
|--|----------------------|--------------|------------|-----------------|
| <b>Governmental<br/>Activities</b>                         |                      |              |            |                 |
| Capital assets not being depreciated                       |                      |              |            |                 |
| Land   | 316,383.00           | -            | -          | 316,383.00      |
| Construction in progress                                   | 537,274.90           | 5,795,521.72 | -          | 6,332,796.62    |
| Total capital assets not being depreciated                 | 853,657.90           | 5,795,521.72 |            | 6,649,179.62    |
| Capital assets being depreciated                           |                      |              |            |                 |
| Buildings  | 28,076,662.48        | -            | -          | 28,076,662.48   |
| Machinery and equipment                                    | 3,194,952.31         | 392,047.50   | 234,248.00 | 3,352,751.81    |
| Total assets being depreciated                             | 31,271,614.79        | 392,047.50   | 234,248.00 | 31,429,414.29   |
| Less accumulated depreciation for                          |                      |              |            |                 |
| Buildings  | 4,594,701.90         | 578,417.23   | -          | 5,173,119.10    |
| Machinery and equipment                                    | 2,052,984.53         | 323,135.55   | 225,912.93 | 2,150,207.18    |
| Total accumulated depreciation                             | 6,647,686.43         | 901,552.78   | 225,912.93 | 7,323,326.28    |
| Total capital assets being depreciated, net                | 24,623,928.36        | (509,505.28) | 8,335.07   | 24,106,088.01   |
|  | \$25,477,586.26      | 5,286,016.44 | 8,335.07   | \$30,755,267.63 |
| <b>Governmental<br/>Activities Capital<br/>Assets, Net</b> |                      |              |            |                 |
|  | Beginning<br>Balance | Increases    | Decreases  | Ending Balance  |
| <b>Business-type Activities</b>                            |                      |              |            |                 |
| Capital assets not being depreciated                       |                      |              |            |                 |
| Land   | -                    | -            | -          | -               |
| Construction in progress                                   | -                    | -            | -          | -               |
| Total capital assets not being depreciated                 | -                    | -            | -          | -               |
| Capital assets being depreciated                           |                      |              |            |                 |
| Buildings  | -                    | -            | -          | -               |
| Machinery and equipment                                    | 546,929.30           | 15,513.19    | -          | 562,442.49      |
| Total assets being depreciated                             | 546,929.30           | 15,513.19    | -          | 562,442.49      |
| Less accumulated depreciation for                          |                      |              |            |                 |
| Buildings  | -                    | -            | -          | -               |
| Machinery and equipment                                    | 285,613.34           | 38,046.60    | -          | 323,659.94      |
| Total accumulated depreciation                             | 285,613.34           | 38,046.60    | -          | 323,659.94      |
| Total capital assets being depreciated, net                | 261,315.96           | (22,533.41)  |            | 238,782.55      |
|  | \$261,315.96         | (22,533.41)  |            | \$238,782.55    |
| <b>Business-type Activities<br/>Capital Assets, Net</b>    |                      |              |            |                 |

**SPENCER COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED  
YEAR ENDED JUNE 30, 2008**

**NOTE 7 – COMMITMENTS**

Leases

The following is a schedule by years of future minimum rental payments required under operating leases for office equipment that have initial non-cancelable lease terms in excess of one year as of June 30, 2007:

| Year Ending June 30,   |             |
|------------------------|-------------|
|                        |             |
| 2009                   | \$48,866.40 |
| 2010                   | \$32,382.97 |
| Total minimum payments | \$81,249.37 |

**NOTE 8 - CONTINGENCIES**

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

**NOTE 9 - INSURANCE AND RELATED ACTIVITIES**

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes Workers' Compensation insurance.

**NOTE 10 - RISK MANAGEMENT**

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. The public entity risk pools operate as common risk management and insurance programs for all school district and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the members on a pro-rata basis.



**SPENCER COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED  
YEAR ENDED JUNE 30, 2008**

**NOTE 10 - RISK MANAGEMENT-CONTINUED**

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE 11 - DEFICIT OPERATING BALANCES**

There are no funds of the District that currently have a deficit fund balance. There are also no funds having operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance:

**NOTE 12 - COBRA**

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss (contingency).

**NOTE 13 – PRIOR PERIOD ADJUSTMENT**

Expenses were incurred and paid during fiscal year ended June 30, 2007 that were for the construction renovation for the high school. Bonds for the project were issued in July 2007 totaling \$11,380,000 with an average coupon rate of 4.29.

**NOTE 14 - LITIGATION**

The District's lawyer has advised us that at the present time there are legal proceedings and claims that have risen in the ordinary course of its business and have not been finally adjudicated. Although there can be no assurance as to the ultimate disposition of these matters and the proceedings, it is the opinion of the school district's management based upon the information available at this time, that the expected outcome of these matters, individually or in the aggregate, will not have a material adverse effect on the results of operations and financial condition of the Spencer County School District.

**NOTE 15 – SUBSEQUENT EVENTS**

The Board approved renovation and an addition to the high school facility which currently houses 750 students, grades 9-12. The addition will allow for an additional 250 students. The approved cost of the project is \$11,465,617. In July 2007, bonds totaling \$11,380,000 were issued with an average coupon rate of 4.29. The District broke ground in August 2007. The renovation project is on schedule and should be complete January 2009.

On October 3, 2008, Congress temporarily increased FDIC deposit insurance from \$100,000 to \$250,000 per depositor through December 31, 2009

**SPENCER COUNTY SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2008**

|   | <u>Budget</u>            | <u>Actual</u>                 | <u>Variance<br/>Favorable<br/>(Unfavorable)</u> |
|---|--------------------------|-------------------------------|---|
| <b>Revenues:</b>  |                          |                               |   |
| Taxes   |                          |                               |   |
| Property  | \$ 3,158,663.00          | \$ 3,379,986.18               | \$ 221,323.18                                   |
| Motor Vehicle   | 572,000.00               | 639,488.92                    | 67,488.92                                       |
| Utilities   | 550,000.00               | 679,568.12                    | 129,568.12                                      |
| Transportation  | 56,000.00                | 72,704.98                     | 16,704.98                                       |
| Earnings On Investments   | 140,000.00               | 145,667.69                    | 5,667.69  |
| Other Local Revenues  | 56,200.00                | 125,582.02                    | 69,382.02                                       |
| Intergovernmental - Intermediate  | -                        | -                             | -   |
| Intergovernmental - State   | 9,532,582.00             | 12,559,647.89                 | 3,027,065.89                                    |
| Intergovernmental - Indirect Federal  | -                        | -                             | -   |
| Intergovernmental - Direct Federal  | 23,000.00                | 52.60                         | (22,947.40)                                     |
| Total Revenues  | <u>\$ 14,088,445.00</u>  | <u>\$ 17,602,698.40</u>       | <u>\$ 3,514,253.40</u>                          |
| <b>Expenditures</b>   |                          |                               |   |
| Instruction   | \$ 8,332,391.07          | \$ 10,513,567.49              | \$ (2,181,176.42)                               |
| Support Services:   |                          |                               |   |
| Student   | 644,721.00               | 753,256.36                    | (108,535.36)                                    |
| Instruction Staff   | 492,174.00               | 623,854.18                    | (131,680.18)                                    |
| District Administration   | 571,983.00               | 552,983.81                    | 18,999.19                                       |
| School Administrative   | 990,498.00               | 1,204,861.43                  | (214,363.43)                                    |
| Business  | 531,751.25               | 554,807.40                    | (23,056.15)                                     |
| Plant Operation & Maintenance   | 1,509,937.00             | 1,614,492.49                  | (104,555.49)                                    |
| Student Transportation  | 1,453,950.40             | 1,566,572.29                  | (112,621.89)                                    |
| Central Office  | -                        | -                             | -   |
| Community Service Activities  | 2,500.00                 | 196.24                        | 2,303.76  |
| Debt Service  | 58,006.00                | 58,006.27                     | (0.27)  |
| Total Expenditures  | <u>\$ 14,587,911.72</u>  | <u>\$ 17,442,597.96</u>       | <u>\$ (2,854,686.24)</u>                        |
| <b>Excess (Deficit) Of Revenues<br/>Over Expenditures</b>   | \$ (499,466.72)          | \$ 160,100.44                 | \$ 659,567.16                                   |
| <b>Other Financing Sources (Uses)</b>   |                          |                               |   |
| Proceeds From Sale Of Bonds   | \$ -                     | \$ -                          | \$ -  |
| Proceeds From Sale Of Fixed Assets  | 5,593.00                 | 173,222.39                    | 167,629.39                                      |
| Contingency   | (1,059,875.28)           | -                             | 1,059,875.28                                    |
| Operating Transfers In  | 15,985.00                | 28,671.58                     | 12,686.58                                       |
| Operating Transfers Out   | (44,270.00)              | (55,689.39)                   | (11,419.39)                                     |
| Total Other Financing Sources (Uses)  | <u>\$ (1,082,567.28)</u> | <u>\$ 146,204.58</u>          | <u>\$ 1,228,771.86</u>                          |
| <b>Excess (Deficit) Of Revenue &amp; Other<br/>Financing Sources Over Expenditures<br/>&amp; Other Financing Uses</b> | \$ (1,582,034.00)        | \$ 306,305.02                 | \$ 1,888,339.02                                 |
| <b>Fund Balance, July 1, 2006<br/>As Originally Stated</b>  | <u>1,582,034.00</u>      | <u>1,673,033.64</u>           | <u>90,999.64</u>                                |
| <b>Fund Balance, June 30, 2007</b>  | <u><u>\$ -</u></u>       | <u><u>\$ 1,979,338.66</u></u> | <u><u>\$ 1,979,338.66</u></u>                   |

See independent auditor's report and accompanying notes to financial statements.

**SPENCER COUNTY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2008**

|  | <u>CFDA Number</u> | <u>Pass Through<br/>Number</u> | <u>Disbursements</u> |
|--|--------------------|--------------------------------|----------------------|
| <b><u>U.S. Department Of Education</u></b>           |                    |                                |                      |
| Passed through the Kentucky Department of Education  |                    |                                |                      |
| Title I FY 2007                                      | 84.010             | 0351-07-01                     | 35,008.98            |
| Title I FY 2008                                      | 84.010             | 0351-08-01                     | 196,621.12           |
|  |                    |                                | <u>231,630.10</u>    |
| Title I School Improvement FY 2008                   | 84.010A            | 0351-08-01                     | 17,744.25            |
|  |                    |                                | <u>17,744.25</u>     |
| Title I - Migrant Education Chapter I FY 2007        | 84.011             | 0352-07-01                     | 24,126.62            |
| Title I - Migrant Education Chapter I FY 2008        | 84.011             | 0352-08-01                     | 73,533.48            |
|  |                    |                                | <u>97,660.10</u>     |
| Title I - Migrant Education- Spencer Co FY 2007      | 84.011A            | 0352-07-01                     | 13,971.44            |
| Title I - Migrant Education- Spencer Co FY 2008      | 84.011A            | 0352-08-01                     | 1,307.80             |
|  |                    |                                | <u>15,279.24</u>     |
| Title V Innovative FY 2007                           | 84.298             | 0553-07-02                     | 392.01               |
| Title V Innovative FY 2008                           | 84.298             | 0553-08-02                     | 1,714.06             |
|  |                    |                                | <u>2,106.07</u>      |
| IDEA - B FY 2007                                     | 84.027             | 0581-07-02                     | 56,171.95            |
| IDEA - B FY 2008                                     | 84.027             | 0581-08-02                     | 417,198.19           |
|  |                    |                                | <u>473,370.14</u>    |
| IDEA - B Preschool FY 2007                           | 84.173             | 0587-07-02                     | 26,194.77            |
| IDEA - B Preschool FY 2008                           | 84.173             | 0587-08-02                     | 43,314.00            |
|  |                    |                                | <u>69,508.77</u>     |
| Voc Edu- Basic Title IIC                             | 84.084             | 0462-08-32                     | 21,785.00            |
|  |                    |                                | <u>21,785.00</u>     |
| Tech Prep  | 84.243             | 5463-08-02                     | 11,736.54            |
|  |                    |                                | <u>11,736.54</u>     |
| Adult Ed- Family Literacy                            | 84.002             | 0535-08-02                     | 24,959.41            |
|  |                    |                                | <u>24,959.41</u>     |
| Community Bases Work Transition                      | 84.126A            | H126A-08-0023                  | 8,600.00             |
|  |                    |                                | <u>8,600.00</u>      |
| Drug Free Schools                                    | 84.186             | 0590-06-02                     | 3,568.61             |
| Drug Free Schools                                    | 84.186A            | 0590-07-02                     | 998.46               |
|  |                    |                                | <u>4,567.07</u>      |
| Title II NCLB Technology Part A                      | 84.367A            | 0736-06-02                     | 4,041.04             |
| Title II NCLB Technology Part A                      | 84.367A            | 0736-07-02                     | 45,978.74            |
|  |                    |                                | <u>50,019.78</u>     |
| Title II NCLB Technology                             | 84.318X            |                                | 14.00                |
| Title II NCLB Technology                             | 84.318X            |                                | 346.34               |
| Title II NCLB Technology                             | 84.318X            |                                | 2,595.87             |
|  |                    |                                | <u>2,956.21</u>      |
| Title III Limited English Prof FY 2008               | 84.365             |                                | 1,423.00             |
|  |                    |                                | <u>1,423.00</u>      |
| Norm Reference Testing FY 2007                       |                    |                                | 1,230.00             |
|  |                    |                                | <u>1,230.00</u>      |
| Total U.S. Department Of Education                   |                    |                                | <u>\$ 1,034,576</u>  |
| <b><u>U.S. Department of Agriculture</u></b>         |                    |                                |                      |
| Passed through the Kentucky Department of Education  |                    |                                |                      |
| National School Lunch Program, fiscal year 2004-2005 | 10.555             | 575-05                         | \$ 367,601           |
| National School Breakfast, fiscal year 2004-2005     | 10.553             | 576-05                         | 102,647              |
| National Summer Meal Program, fiscal year 2003-2004  | 10.559             | 574-04                         | 27,161               |
|  |                    |                                | <u>497,409</u>       |
| Total U.S. Department of Agriculture                 |                    |                                | <u>\$ 497,409</u>    |
| Total Expenditures of Federal Awards                 |                    |                                | <u>\$ 1,531,985</u>  |

**SPENCER COUNTY SCHOOL DISTRICT  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2008**

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Spencer County School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Total value of commodities received by the food service operation for the year ended June 30, 2008 was \$61,308.00.

**SPENCER COUNTY SCHOOL DISTRICT  
COMBINING BALANCE SHEET FOR CAPITAL PROJECTS  
AS OF JUNE 30, 2008**

|   | <b>Capital<br/>Outlay<br/>Fund</b> | <b>Building<br/>Fund</b> | <b>Totals</b>          |
|---|------------------------------------|--------------------------|------------------------|
| <b>Assets &amp; Resources:</b>              |                                    |                          |                        |
| Cash & Cash Equivalents                     | \$ -                               | \$ 1,860,922.98          | \$ 1,860,922.98        |
| Accounts Receivable                         | -                                  | -                        | -                      |
| Investments                                 | -                                  | -                        | -                      |
|   | <u>-</u>                           | <u>-</u>                 | <u>-</u>               |
| Total Assets & Resources                    | <u>\$ -</u>                        | <u>\$ 1,860,922.98</u>   | <u>\$ 1,860,922.98</u> |
| <br><b>Liabilities &amp; Fund Balances:</b> |                                    |                          |                        |
| <b>Liabilities</b>                          |                                    |                          |                        |
| Accounts Payable                            | \$ -                               | \$ -                     | \$ -                   |
| Deferred Revenue                            | -                                  | -                        | -                      |
|   | <u>-</u>                           | <u>-</u>                 | <u>-</u>               |
| Total Liabilities                           | \$ -                               | \$ -                     | \$ -                   |
| <br><b>Fund Balances:</b>                   |                                    |                          |                        |
| Reserved:                                   |                                    |                          |                        |
| Reseved For Future Use                      |                                    |                          | -                      |
| Capital Projects Funds                      | \$ -                               | \$ 1,860,922.98          | \$ 1,860,922.98        |
|   | <u>-</u>                           | <u>\$ 1,860,922.98</u>   | <u>\$ 1,860,922.98</u> |
| Total Fund Balances                         | \$ -                               | \$ 1,860,922.98          | \$ 1,860,922.98        |
|   | <u>-</u>                           | <u>\$ 1,860,922.98</u>   | <u>\$ 1,860,922.98</u> |
| Total Liabilities & Fund Balances           | <u>\$ -</u>                        | <u>\$ 1,860,922.98</u>   | <u>\$ 1,860,922.98</u> |

**SPENCER COUNTY SCHOOL DISTRICT  
COMBINING INCOME STATEMENT FOR CAPITAL PROJECTS  
AS OF JUNE 30, 2008**

|   | Capital<br>Outlay<br>Fund | Building<br>Fund              | Totals                        |
|---|---------------------------|-------------------------------|-------------------------------|
| <b>Revenues:</b>  |                           |                               |                               |
| From local sources  |                           |                               |                               |
| Taxes   |                           |                               |                               |
| Property  | \$ -                      | \$ 1,599,174.00               | \$ 1,599,174.00               |
| Motor Vehicle   | -                         | -                             | -                             |
| Utilities   | -                         | -                             | -                             |
| Tuition And Fees  | -                         | -                             | -                             |
| Earnings On Investments   | -                         | 70,193.62                     | 70,193.62                     |
| Other Local Revenues  | -                         | -                             | -                             |
| Intergovernmental - Intermediate  | -                         | -                             | -                             |
| Intergovernmental - State   | 241,870.00                | 474,598.00                    | 716,468.00                    |
| Intergovernmental - Indirect Federal  | -                         | -                             | -                             |
| Intergovernmental - Direct Federal  | -                         | -                             | -                             |
| Total Revenues  | <u>\$ 241,870.00</u>      | <u>\$ 2,143,965.62</u>        | <u>\$ 2,385,835.62</u>        |
| <b>Expenditures</b>   | -                         | -                             | -                             |
| Instruction   |                           |                               |                               |
| Support Services:   |                           |                               |                               |
| Student   | -                         | -                             | -                             |
| Instruction Staff   | -                         | -                             | -                             |
| District Administration   | -                         | -                             | -                             |
| School Administrative   | -                         | -                             | -                             |
| Business  | 1,609.03                  | -                             | 1,609.03                      |
| Plant Operation & Maintenance   | 45,269.00                 | -                             | 45,269.00                     |
| Student Transportation  | -                         | -                             | -                             |
| Central Office  | -                         | -                             | -                             |
| Facilities Acquisition & Maintenance  | -                         | -                             | -                             |
| Community Service Activities  | -                         | -                             | -                             |
| Debt Service  | 194,991.97                | 1,568,006.74                  | 1,762,998.71                  |
| Total Expenditures  | <u>\$ 241,870.00</u>      | <u>\$ 1,568,006.74</u>        | <u>\$ 1,809,876.74</u>        |
| <b>Excess (Deficit) Of Revenues Over Expenditures</b>   | <u>\$ -</u>               | <u>\$ 575,958.88</u>          | <u>\$ 575,958.88</u>          |
| <b>Other Financing Sources (Uses)</b>   |                           |                               |                               |
| Operating Transfers In  | \$ -                      | \$ -                          | \$ -                          |
| Operating Transfers Out   | <u>-</u>                  | <u>-</u>                      | <u>-</u>                      |
| Total Other Financing Sources (Uses)  | <u>\$ -</u>               | <u>\$ -</u>                   | <u>\$ -</u>                   |
| <b>Excess (Deficit) Of Revenue &amp; Other Financing Sources<br/>Over Expenditures &amp; Other Financing Uses</b> | <u>\$ -</u>               | <u>\$ 575,958.88</u>          | <u>\$ 575,958.88</u>          |
| <b>Fund Balance, July 1, 2006, As Originally Stated</b>   | \$ -                      | \$ 1,284,964.10               | \$ 1,284,964.10               |
| <b>Prior Period Adjustment</b>  |                           |                               |                               |
| <b>Fund Balance, June 30, 2007</b>  | <u><u>\$ -</u></u>        | <u><u>\$ 1,860,922.98</u></u> | <u><u>\$ 1,860,922.98</u></u> |

**SPENCER COUNTY SCHOOL DISTRICT  
SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CASH BALANCE  
ALL ACTIVITY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2008**

|                                | <b>Cash<br/>Balance<br/>July 1,<br/>2007</b> | <b>Receipts</b> | <b>Disbursements</b> | <b>Cash<br/>Balance<br/>June 30,<br/>2008</b> |
|--------------------------------|--|-----------------|----------------------|---|
| Spencer County Elementary      | \$ 47,173.31                                 | \$ 154,979.13   | \$ 147,235.39        | \$ 54,917.05                                  |
| Spencer County Middle          | 45,184.14                                    | 225,489.10      | 208,034.71           | 62,638.53                                     |
| Taylorsville Elementary School | 19,418.25                                    | 55,224.18       | 48,775.89            | 25,866.54                                     |
| Spencer County High School     | 105,925.55                                   | 572,923.24      | 541,793.80           | 137,054.99                                    |
| Totals                         | \$ 217,701.25                                | \$ 1,008,615.65 | \$ 945,839.79        | \$ 280,477.11                                 |

**SPENCER COUNTY SCHOOL DISTRICT  
SCHEDULE OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE  
HIGH SCHOOL ACTIVITY FUND  
FOR THE YEAR ENDED JUNE 30, 2008**

|                             | Cash<br>Balance<br>July 1,<br>2007 | Receipts  | Disbursements | Transfers   | Cash<br>Balance<br>June 30,<br>2008 |
|-----------------------------|------------------------------------|-----------|---------------|-------------|-------------------------------------|
| 000105 Fees/Dues            | \$ 15.33                           | \$ 364.35 | \$ 40.00      | \$ (323.24) | \$ 16.44                            |
| 000109 Textbooks            | 5,630.23                           | 24,574.38 | 8,502.65      | (7,985.81)  | 13,716.15                           |
| 000300 Visual Perform Arts  | 1,127.95                           | -         | -             | -           | 1,127.95                            |
| 000301 Arts & Humanities    | -                                  | -         | -             | -           | -                                   |
| 000302 AP                   | 7.00                               | 7,025.00  | 6,658.00      | -           | 374.00                              |
| 000303 Art D                | -                                  | 158.00    | 876.69        | 1,228.85    | 510.16                              |
| 000304 Art W                | 44.66                              | -         | 116.94        | 72.28       | -                                   |
| 000306 Piano/Keyboard       | 120.00                             | -         | -             | -           | 120.00                              |
| 000307 Band                 | 269.93                             | 1,201.25  | 2,319.71      | 1,598.00    | 749.47                              |
| 000313 Business             | 361.94                             | 185.10    | 196.93        | (50.99)     | 299.12                              |
| 000315 FBLA                 | 1,196.47                           | 2,804.00  | 3,728.87      | -           | 271.60                              |
| 000317 Career & Technical   | 100.32                             | -         | -             | -           | 100.32                              |
| 000319 Chorus               | 238.62                             | 28,629.13 | 27,755.15     | (50.00)     | 1,062.60                            |
| 000320 Cinema               | -                                  | -         | -             | -           | -                                   |
| 000321 Computer Technology  | 1,080.52                           | 55.00     | 4,532.95      | 6,258.00    | 2,860.57                            |
| 000323 Drama                | 828.63                             | 512.57    | 450.34        | (7.70)      | 883.16                              |
| 000326 ECE                  | 27.26                              | -         | 388.80        | 400.00      | 38.46                               |
| 000328 Con Family SCI       | -                                  | 1,877.00  | 2,002.41      | 125.41      | -                                   |
| 000329 Child Care Services  | 860.00                             | 2,509.00  | 2,303.63      | (80.00)     | 985.37                              |
| 000331 FCCLA                | 3,368.53                           | 31,774.99 | 36,147.19     | 1,003.67    | 0.00                                |
| 000333 FCCLA Region 6       | 343.13                             | -         | -             | (343.13)    | -                                   |
| 000335 German               | -                                  | -         | -             | -           | -                                   |
| 000337 Gifted & Talented    | 0.68                               | -         | -             | -           | 0.68                                |
| 000338 National History Day | 0.67                               | 2,789.70  | 3,455.88      | 665.51      | -                                   |
| 000341 Technology Education | 116.95                             | 593.00    | 406.73        | (0.90)      | 302.32                              |
| 000343 TSA                  | 680.23                             | 832.95    | 1,472.16      | -           | 41.02                               |
| 000346 Journalism           | -                                  | -         | -             | -           | -                                   |
| 000347 Language             | 906.37                             | 2,338.36  | 2,830.36      | 122.71      | 537.08                              |
| 000349 Latin                | 16.10                              | -         | -             | -           | 16.10                               |
| 000350 Literacy             | 2.91                               | -         | -             | -           | 2.91                                |
| 000351 Mathematics          | 441.99                             | 1,064.45  | 1,108.50      | (123.52)    | 274.42                              |
| 000357 Media                | 0.82                               | 446.69    | 612.39        | 435.91      | 271.03                              |
| 000363 PE & Health          | 587.89                             | 16.00     | 214.02        | (43.00)     | 346.87                              |
| 000364 Radio                | 222.80                             | -         | -             | -           | 222.80                              |
| 000365 Reading              | 12.62                              | -         | -             | -           | 12.62                               |
| 000366 Science              | 1,873.15                           | 1,810.00  | 3,235.91      | 193.89      | 641.13                              |
| 000371 Social Studies       | 206.02                             | -         | 50.99         | (38.80)     | 116.23                              |
| 000372 Spanish              | 752.40                             | -         | -             | -           | 752.40                              |
| 000375 Speech/Debate        | 30.00                              | -         | -             | -           | 30.00                               |
| 000377 Career AG            | 3,681.26                           | 9,640.00  | 11,796.96     | 580.15      | 2,104.45                            |
| 000378 Dairy Team           | 2,230.04                           | 365.25    | 550.30        | -           | 2,044.99                            |
| 000379 FFA                  | 4,273.08                           | 71,005.16 | 60,667.34     | (175.00)    | 14,435.90                           |
| 000381 Greenhouse           | 13,968.99                          | 11,692.50 | 10,241.76     | 215.00      | 15,634.73                           |
| 000384 Writing              | 45.00                              | -         | -             | -           | 45.00                               |
| 000386 Yearbook             | 5,355.45                           | 6,570.00  | 8,183.24      | -           | 3,742.21                            |
| 000403 Library Club         | 759.87                             | -         | -             | (759.87)    | -                                   |



**SPENCER COUNTY SCHOOL DISTRICT  
SCHEDULE OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE  
HIGH SCHOOL ACTIVITY FUND  
FOR THE YEAR ENDED JUNE 30, 2008**

|                               | <b>Cash<br/>Balance<br/>July 1,<br/>2007</b> | <b>Receipts</b> | <b>Disbursements</b> | <b>Transfers</b> | <b>Cash<br/>Balance<br/>June 30,<br/>2008</b> |
|-------------------------------|--|-----------------|----------------------|------------------|---|
| 000405 Future Educators Assoc | 881.18                                       | -               | -                    | -                | 881.18  |
| 000407 National Honor Society | 253.22                                       | 1,069.21        | 855.88               | -                | 466.55  |
| 000409 Pep Club               | 55.29  | 400.00          | 359.25               | (23.00)          | 73.04   |
| 000410 Spanish Club           | 0.73   | -               | -                    | -                | 0.73  |
| 000413 Student Council        | 34.94  | -               | -                    | -                | 34.94   |
| 000417 Academic Team          | 378.56                                       | 55.00           | 432.58               | -                | 0.98  |
| 000424 M F Brown Memorial     | -  | 101.50          | 500.00               | 653.22           | 254.72  |
| 000501 Bookstore              | 94.44  | -               | -                    | -                | 94.44   |
| 000502 Pepsi Public           | -  | -               | -                    | -                | -   |
| 000505 Copier/Library         | 55.16  | 100.05          | -                    | -                | 155.21  |
| 000507 Hospitality            | 59.61  | -               | 111.50               | 111.50           | 59.61   |
| 000509 Snacks Student         | 2,001.17                                     | -               | 2,009.76             | 8.59             | 0.00  |
| 000510 Snacks Faculty         | 22.86  | -               | 33.00                | 10.14            | -   |
| 000512 Coca Cola Public       | 923.70                                       | 2,360.25        | 1,355.90             | (200.00)         | 1,728.05                                      |
| 000513 Coca Cola Student      | 1,994.28                                     | 11,247.76       | 10,385.55            | (2,113.11)       | 743.38  |
| 000514 Coca Cola              | 123.46                                       | 4,063.50        | 3,611.60             | (184.48)         | 390.88  |
| 000600 Pictures               | -  | 4,738.02        | 3,538.02             | -                | 1,200.00                                      |
| 000601 Administration         | 5,000.92                                     | 17,081.64       | 14,672.75            | (2,338.97)       | 5,070.84                                      |
| 000603 General                | 332.39                                       | 598.78          | 576.38               | (200.00)         | 154.79  |
| 000604 Student General        | -  | 580.73          | 549.06               | 500.00           | 531.67  |
| 000605 Principal's Fund       | 1,556.64                                     | 6,340.00        | 4,100.40             | 704.44           | 4,500.68                                      |
| 000607 Guidance               | 1,235.38                                     | 828.00          | 1,229.86             | (100.00)         | 733.52  |
| 000611 Project Graduation     | 30.00  | 10,826.31       | 14,502.50            | 7,797.50         | 4,151.31                                      |
| 000613 PTSO                   | 66.03  | -               | -                    | -                | 66.03   |
| 000615 Memorial Fund          | 197.76                                       | -               | 72.98                | 72.98            | 197.76  |
| 000701 Senior Class           | 1,938.17                                     | 30,281.10       | 23,145.45            | (5,372.74)       | 3,701.08                                      |
| 000703 Senior Trip            | 356.14                                       | 18,077.90       | 17,636.54            | (797.50)         | -   |
| 000705 Junior Class           | 1,087.53                                     | 11,463.07       | 12,192.80            | (357.80)         | 0.00  |
| 000707 Sophomore Class        | 497.50                                       | 874.00          | -                    | (497.50)         | 874.00  |
| 000709 Freshman Class         | 323.04                                       | 6,880.00        | 6,403.04             | -                | 800.00  |
| 000800 Spirit Bookstore       | 0.40   | 4,709.90        | 6,224.11             | 2,317.50         | 803.69  |
| 000801 S.C. Ath Assoc         | 800.00                                       | 25,204.42       | 17,182.24            | (6,620.75)       | 2,201.43                                      |
| 000802 Fellow of Christ       | 3.21   | -               | -                    | -                | 3.21  |
| 000803 Athletics              | 3,727.73                                     | 52,021.95       | 61,344.19            | 5,594.51         | -   |
| 000804 District Tournament    | -  | 9,908.37        | 6,308.79             | (413.20)         | 3,186.38                                      |
| 000805 Bingo                  | 493.29                                       | -               | 257.43               | -                | 235.86  |
| 000807 Concessions            | 2,899.87                                     | 23,731.90       | 17,906.01            | (6,903.83)       | 1,821.93                                      |
| 000811 Athletic Boosters      | 433.97                                       | 60.00           | -                    | -                | 493.97  |
| 000815 Baseball               | 8,974.90                                     | 35,740.40       | 27,719.85            | 20.20            | 17,015.65                                     |
| 000817 Baseball Lights        | -  | 40.00           | -                    | -                | 40.00   |
| 000818 Basketball Boosters    | -  | 2,729.80        | 2,487.70             | -                | 242.10  |
| 000819 Basketball Boy         | 3,302.77                                     | 17,325.25       | 13,621.72            | 1,459.72         | 8,466.02                                      |
| 000823 Basketball Girl        | 938.34                                       | 7,102.00        | 7,899.46             | 39.80            | 180.68  |
| 000825 Dance Team             | 176.55                                       | 3,850.80        | 4,027.13             | -                | 0.22  |
| 000827 Cheerleader            | 1,587.42                                     | 3,801.18        | 4,651.56             | (254.44)         | 482.60  |
| 000828 Cross Country          | -  | 500.00          | 455.00               | 200.00           | 245.00  |
| 000829 Golf Boy               | 4.33   | -               | -                    | -                | 4.33  |
| 000831 Golf Girl              | 0.08   | 280.00          | 789.55               | 609.47           | 100.00  |
| 000832 Soccer Boys            | -  | 3,458.50        | 2,912.59             | 948.00           | 1,493.91                                      |

**SPENCER COUNTY SCHOOL DISTRICT  
SCHEDULE OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE  
HIGH SCHOOL ACTIVITY FUND  
FOR THE YEAR ENDED JUNE 30, 2008**

|                       | <b>Cash<br/>Balance<br/>July 1,<br/>2007</b> | <b>Receipts</b>   | <b>Disbursements</b> | <b>Transfers</b> | <b>Cash<br/>Balance<br/>June 30,<br/>2008</b> |
|-----------------------|--|-------------------|----------------------|------------------|---|
| 000833 Soccer Girls   | 3,403.55                                     | 5,478.60          | 6,572.51             | 134.00           | 2,443.64                                      |
| 000835 Softball       | 2,115.06                                     | 13,479.45         | 14,533.79            | 300.00           | 1,360.72                                      |
| 000838 Tennis Boys    | 20.61  | 561.00            | 616.00               | 86.39            | 52.00   |
| 000839 Tennis Girls   | -  | 180.00            | 169.00               | -                | 11.00   |
| 000840 Volleyball     | 1,249.06                                     | 2,220.78          | 3,206.20             | 296.40           | 560.04  |
| 000842 Football       | 348.62                                       | 40.75             | 75.00                | (314.37)         | -   |
| 000843 Football Coach | 4,159.88                                     | 21,697.54         | 23,712.37            | 1,909.91         | 4,054.96                                      |
| Totals                | <u>105,925.55</u>                            | <u>572,923.24</u> | <u>541,793.80</u>    | <u>-</u>         | <u>137,054.99</u>                             |

# BROWN & COMPANY

## CERTIFIED PUBLIC ACCOUNTANTS FINANCIAL ADVISORS & BUSINESS CONSULTANTS

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William G. Brown, CPA - W. Gilbert Brown III, CPA

### INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Members of the Board of Education  
Spencer County School District  
Taylorsville, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and aggregate discretely presented component unit and remaining fund information of the Spencer County School District, as of and for the year ended June 30, 2008, which collectively comprise the Spencer County School District's basic financial statements and have issued our report thereon dated November 11, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the provisions of the *Office of Management and Budget Circular No. A-133, Audits of States, Local Governments, and Non-Profit Organization, Appendix I to the Independent Auditor's Contract-General Audit Requirement, Appendix II to the Independent Auditor's Contract – State Audit Requirement, and Appendix III to the Independent Auditor's Contract – Electronic Submission*.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Spencer County School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Spencer County School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Spencer County School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Spencer County School District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. Reference numbers 2008-1-2008-6

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Spencer County School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Spencer County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item reference number 2008-7

We noted certain matters that we reported to management of the Spencer County School District, in a separate letter dated November 11, 2008.

Spencer County School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the school board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Brown & Company CPA's*

Bardstown, Kentucky  
November 11, 2008

**SPENCER COUNTY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2008**

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**Section I-Summary of Auditor's Results**

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**Financial Statements**

Type of auditor's report issued (unqualified):

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_yes \_\_\_X\_\_\_no
- Reportable condition(s) identified that are not considered to be material weaknesses? \_\_\_X\_\_\_yes \_\_\_\_\_none reported

Noncompliance material to financial statements noted? \_\_\_\_\_yes \_\_\_X\_\_\_no

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified? \_\_\_\_\_yes \_\_\_X\_\_\_no
- Reportable condition(s) identified that are not considered to be material weakness(es)? \_\_\_\_\_yes \_\_\_X\_\_\_none reported

Type of auditor's report issued on compliance for major programs (unqualified): unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? \_\_\_\_\_yes \_\_\_X\_\_\_no

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|---|
| 84.27                 | Idea B                                    |
| 84.010                | Title I                                   |

Dollar threshold used to distinguish Between type A and type B programs: \$ \_\_\_300,000

Auditee qualified as low-risk auditee? \_\_\_X\_\_\_yes \_\_\_\_\_no

**SPENCER COUNTY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2008**

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**Section I – Summary of Auditor’s Results- Continued**

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Significant Deficiencies

**Internal Control – District Office**

2008-1

During our inspection we found that there were unauthorized transactions charged to the Wal-Mart credit card. This occurred when instructors were given an allotted amount to spend on classroom supplies, they did not spend the entire amount allotted and chose to get a gift card for the difference instead of checking the Wal-mart card out again. The effect of this condition is that Spencer County would not be able to verify how the gift card was spent. We recommended that the District reiterate to staff members that gift cards are not allowed to be purchased using the Wal-mart credit card.

Spencer County School District Response- The school district found the transaction when reviewing the credit card statement and matching it to receipts they received throughout the month. Staff members chose to reimburse the district for the gift cards purchased and when they needed the remainder of the allotment that was given to them they checked the Wal-mart card out and the transactions was processed accurately. The district has informed all staff members of their Wal-mart card policy and that the purchase of gift cards is not allowed.

2008-2

During our inspection we found several purchase orders were created after the fact. This occurred when invoices were submitted for payment and a purchase order had not been created for the expenditure. The effect of this occurring is that procedures are not being followed and the risk of misstatement increases. We recommend that all personnel who can order items receive training on the districts policies and procedures.

Spencer County School District Response – The District will address this finding through Redbook training and also at the weekly staff meeting. The District will have training for all personnel that process purchase orders. If the District is made aware of any after the fact purchase orders the District will discuss the issue with the individual that created the purchase order. If it becomes a continual problem the Superintendent can and will remove the individual’s authorization to create a purchase order and/or place an order with a vendor.

2008-3

During our inspection we found several issues in regards to Food Service. A receipt for food purchased dated April 2007 was not submitted for reimbursement until September 2007, the receipt was approved and reimbursed in September. An invoice was paid to a vendor without receiving one of the detailed receipts that made up the balance that was paid. A purchase order dated May 2007 had a description of “for Bear Care Summer Program”, invoice and deliver was not scheduled until October 2007, and the payment for this transaction did not occur until January 2008. Reimbursement was made to a student but the request did not have any information as to how the refund amount was calculated. The cause for the conditions listed above is that internal controls over food service are not as strong as they need to be. The effect is that the risk of misstatement increases. We recommend that controls are strengthened over food service and should be in line with the controls in effect currently regarding other fund activities.

**SPENCER COUNTY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2008**

Spencer County School District Response - The Superintendent will address the finding with the Food Service Director who is the individual that processes the invoices. The Superintendent will instruct the Food Service Director to work closely with the accounts payable clerk in proper processing and documentation of invoices. The Superintendent has clearly stated his expectations of performance and does not anticipate a repeat finding.

**Internal Control – Activity Funds**

2008-4

During our inspection at Spencer County High School, Spencer County Elementary, and at Taylorsville Elementary School we found that there was no documentation to support the assertion that some of the deposit tickets were inspected by someone other than the Treasurer (or other party that may have completed the deposit ticket). We recommend that the district require documentation that shows that someone other than the preparer of the deposit ticket has reviewed the transaction before being deposited by showing two sets of initials on the deposit ticket form.

Spencer County School District Response-The school district required all accounting personnel to attend Redbook training. In addition to the Redbook training the Finance Officer will conduct random inspections of the school activity funds throughout the year.

2008-5

During our inspection at Spencer County High School, Spencer County Middle School, and at Taylorsville Elementary School we found that some of the cancelled checks inspected during our audit contained only one signature. We recommend that the internal control process be updated concerning the signing of checks to make sure every disbursement contains two signatures before being released.

Spencer County School District Response-The school district required all accounting personnel to attend Redbook training. In addition to the Redbook training the Finance Officer will conduct random inspections of the school activity funds throughout the year.

2008-6

During our inspection we found that some of the Multiple Receipt Forms at Spencer County High School, Spencer County Elementary, and at Taylorsville Elementary School that we inspected contained only one signature. All Multiple receipt forms are to be signed and dated by both the person / teacher remitting the money and the Activity Fund Treasurer. We recommend that the district require the Multiple Receipt Form to contain two signatures before depositing the money collected.

Spencer County School District Response- The school district required all accounting personnel to attend Redbook training. In addition to the Redbook training the Finance Officer will conduct random inspections of the school activity funds throughout the year. The District will address the purpose and the completion of Multiple Receipt Forms with all staff on Opening Day.

**SPENCER COUNTY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2008**

**Compliance**

2008-7

The School District does not have accounting personnel that are trained to prepare the financial statements in GASB Format.

Spencer County School District Response- The school district has decided that they do not need an individual on staff that can prepare the financial statements in GASB format. The members of the district's board and the superintendent have decided to have an outside party prepare the compiled financial statements for the audit. Management staff members are highly capable making all management decisions and are able to perform all management functions. The District has also designated an individual who possess suitable skill and knowledge to oversee the financial statements prepared in GASB format. They realize that this is considered to be a significant deficiency.

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**Section II – Financial Statement of Findings**

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No matters were reported.

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**Section III – Federal Award Findings and Questioned Costs**

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No matters were reported.



**SPENCER COUNTY SCHOOL DISTRICT  
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
JUNE 30, 2008**

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Section IV – Prior Year Audit Findings

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**Internal Control – District Office**

**Prior year comment** - Payroll internal controls need to be strengthened in regards to recently retired employees. Additional verification and review needs to take place prior to the finance officer receiving the reports. This has not resulted in a material misstatement.

**Current year follow-up** – No instances were noted during the current year.

**Prior year comment** - During our inspection we found that the bank statements at Spencer County Elementary School, Spencer County Middle School showed no documented evidence that they were opened, reviewed, or inspected by the School Principal before being forwarded to the Activity Fund Treasurer for reconciling. We recommend that the district require that the school principal document both by signature or initials, that the principal has opened, reviewed and inspected the bank statements before passing the statement on the activity fund treasurer.

**Current year follow-up** – No instances were noted during the current year.

**Prior year comment** - During our inspection we found that all purchase request forms inspected at Spencer County Elementary School contained only one signature. All purchase requests were approved by the principal. However this represented the only signature regarding the purchase request forms before disbursement is to be made. We recommend that the district require a second signature on the purchase request form before disbursement is made.

**Current year follow-up** - No instances were noted during the current year.

**Prior year comment** - During our inspection we found that some of the Multiple Receipt Forms at Spencer County Elementary School and at Taylorsville Elementary School that we inspected contained only one signature. All Multiple receipt forms are to be signed and dated by both the person / teacher remitting the money and the Activity Fund Treasurer. We recommend that the district require the Multiple Receipt Form to contain two signatures before depositing the money collected.

**Current year follow-up** - Instances were noted during the current year.

**Prior year comment** - During our inspection at Spencer County High School we found that most of the Purchase Request Forms contained a copied signature of the Activity Fund Treasurer approving the disbursement. Therefore, the signature does not represent adequate authorization or approval of the disbursement. However, we were able to find other documentation of approval by the Treasurer and Principal to adequately support the assertion that the purchase requests had been approved. We recommend that the district put a policy in place that never allows the use of a form that contains a copied authorization. This practice negates any internal control the officer may have regarding the transaction.

**Current year follow-up** – No Instances were noted during the current year.

**SPENCER COUNTY SCHOOL DISTRICT  
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - CONTINUED  
JUNE 30, 2008**

**Prior year comment** - During our inspection at Spencer County High School, Spencer County Middle School, and at Taylorsville Elementary School we found that there was no documentation to support the assertion that the deposit tickets were inspected by someone other than the Treasurer (or other party that may have completed the deposit ticket). We recommend that the district require documentation that shows that someone other than the preparer of the deposit ticket has reviewed the transaction before being deposited by showing two sets of initials on the deposit ticket form.

**Current year follow-up** – No Instances were noted during the current year.

**Prior year comment** - During our inspection at Spencer County High School, and at Spencer County Middle School we found that some of the cancelled checks inspected during our audit contained only one signature. We recommend that the internal control process be updated concerning the signing of checks to make sure every disbursement contains two signatures before being released.

**Current year follow-up** – No Instances were noted during the current year.

**Prior year comment** - During our inspection at Spencer County High School and Spencer County Middle School, we found a few expenditures that were not adequately approved. The Principal did not authorize these disbursements. The Red Book requires two signatures on the purchase request forms before disbursement is to be made. We recommend that the district require a second signature on the purchase request form approving the expenditure before making the disbursement.

**Current year follow-up** – No Instances were noted during the current year.

**Prior year comment** - During our inspection at Spencer County Middle School we found several expenditures that contained no documentation to back up or explain the expenditure. We recommend that the Activity Fund Treasurer must require that adequate documentation support every expenditure before disbursement is made.

**Current year follow-up** – No Instances were noted during the current year.

**Prior year comment** - During our inspection at Taylorsville Elementary School we found that there was only one signature on purchase request forms. All purchase requests were approved by the principal. However this represented the only signature regarding the purchase request. The Red Book requires two signatures on the purchase request forms before disbursement is to be made. We recommend that the district require a second signature on the purchase request form before disbursement is made.

**Current year follow-up** - No Instances were noted during the current year.

**Prior year comment** - During our inspection at Taylorsville Elementary School we found evidence of an improperly used Ticket Sale & Requisition Form. The form had not been reconciled, nor was it signed by the person in charge of sales nor the Activity Fund Treasurer. We recommend that the staff responsible for administering the school activity funds must become more familiar with the correct procedures for utilizing, reconciling and approving the Ticket Sale & Requisition Forms.

**Current year follow-up** - No Instances were noted during the current year.

**SPENCER COUNTY SCHOOL DISTRICT  
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - CONTINUED  
JUNE 30, 2008**

**Prior year comment**-During our inspection at Spencer County High School we found several questionable expenditures that are specifically prohibited under the guidelines of the Red Book. We also found that the school had no current policy on reimbursing teachers and staff for expenses. Documentation failed to prove that the items purchased for reimbursement were used exclusively for school activities. We recommend that the current staff responsible for activity fund administration needs additional Red Book training to gain a better understanding of the prescribed accounting policies and procedures that must be followed to remain in compliance with the Kentucky Department of Education.

**Current year follow-up** - No Instances were noted during the current year.

# BROWN & COMPANY

## CERTIFIED PUBLIC ACCOUNTANTS FINANCIAL ADVISORS & BUSINESS CONSULTANTS

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William G. Brown, CPA - W. Gilbert Brown III, CPA

### INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Members of the Board of Education  
Spencer County School District  
Taylorsville, Kentucky

#### Compliance

We have audited the compliance of Spencer County School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. Spencer County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Spencer County School District's management. Our responsibility is to express an opinion on Spencer County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Spencer County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Spencer County School District's compliance with those requirements.

In our opinion, Spencer County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

#### Internal Control Over Compliance

The management of Spencer County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Spencer County School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Spencer County School District's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the school board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Brown & Company CPA's*

Bardstown, Kentucky  
November 11, 2008

## **MANAGEMENT LETTER COMMENTS**

# BROWN & COMPANY

## CERTIFIED PUBLIC ACCOUNTANTS FINANCIAL ADVISORS & BUSINESS CONSULTANTS

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William G. Brown, CPA - W. Gilbert Brown III, CPA

Members of the Board of Education of  
Spencer County School District  
Taylorsville, Kentucky

In planning and performing our audit of the financial statements of Spencer County School District for the year ended June 30, 2008, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate report dated November 11, 2008 contains our report on the District's internal control structure. This letter does not affect our report dated November 11, 2008 on the financial statements of the Spencer County School District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and their implementation is currently being reviewed. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of the Board of Education, management, and others within the organization and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully,

*Brown & Company CPA's*

Bardstown, Kentucky  
November 11, 2008

**MANAGEMENT LETTER POINTS  
YEAR ENDED JUNE 30, 2008**

**CURRENT YEAR COMMENTS**

Food Service has started tracking cost per tray in regards to payroll. Total cost of food preparation per tray should be tracked to ensure that preparation is as efficient as possible. The Finance department currently does not have access to the food service tracking software, they should have access in order to review food service files for accuracy.

**STATUS OF PRIOR YEAR FINDINGS AND POINTS**

Prior year comments regarding personnel files were addressed and corrected.